

FSC Tentative Agreement Q&A for Article 41: Core Health Savings Account

Questions about the Health Savings Account available for Core Enrollment Participants

What is a Health Savings Account?

A Health Savings Account (“HSA”) is a tax-advantaged healthcare account created for the purpose of saving and paying for qualified medical expenses now and in the future. If you are enrolled in an HSA-compatible health plan, such as American’s Core medical option, which is a high deductible health plan (HDHP), you can enroll in an HSA. The maximum HSA contribution is established by the IRS and is subject to change annually. The funds contributed to an HSA will rollover and accumulate year to year if not used. In addition, an HSA is portable, which means if you change employers or leave the work force, the HSA stays with you. Finally, an HSA does not require you to submit documentation to substantiate your transactions; however, you should keep your receipts in the event of an IRS audit.

Who is eligible for an HSA?

An eligible individual is one who (i) is covered under an HSA-compatible health plan as of the first day of the month, (ii) is not covered by any other health plan unless it is another HSA-compatible health plan, (iii) is Medicare eligible but not enrolled in Medicare, and (iv) may not be claimed as a dependent on another person’s tax return.

Can I be covered by another health plan and still be eligible to contribute to an HSA?

You only remain eligible to contribute to an HSA if the additional health plan is a qualified HSA-compatible health plan.

Can I have a Flexible Spending Account (FSA) with an HSA?

If you are enrolled in an HSA, you cannot be enrolled in a traditional FSA. However, you are eligible to enroll in a Limited Purpose Flexible Spending Account (LPFSA) along with an HSA, if offered by your employer. An LPFSA allows you to pay for eligible dental and vision expenses on a pre-tax basis, which enables you to preserve your HSA funds for other purposes, including saving for the future.

American offers a Limited Purpose Flexible Spending Account (LPFSA) with the Core medical option, the maximum amount you can contribute for these eligible expenses is \$3,000 in any plan year.

What are my investment options?

You have the following investment options:

- Interest Bearing Account - you will automatically be enrolled in this option.
- Money Market Sweep - using Fidelity Money Market Mutual Funds
- Brokerage Investment - 185 funds to choose from

Both the Money Market and Brokerage investment options require a \$1,000 minimum balance be maintained in the account along with any minimum investment amounts required by the fund. After your initial \$1,000 investment, you are able to establish automated recurring purchase into your brokerage account with a minimum of \$100 for each additional purchase. For detailed information on these investment options, go to login to your account and click on Money Market or Investment.

Contributions to a Health Savings Account

Who may contribute to an HSA?

Any person (an eligible individual, an employer, a family member, or any other person) may make contributions to an HSA on behalf of an eligible individual.

How much may be contributed to an HSA?

The maximum amount that may be contributed to an HSA for any year is established by the IRS for each tax year (depending on whether you have single coverage or family coverage). The limits established by the IRS for 2011 are \$3,050 for individual coverage and \$6,150 for family coverage. For the 2012 calendar year, the maximum contribution for an HSA will increase to \$3,100 for individual coverage and \$6,250 for family coverage. The same annual contribution limit applies regardless of whether the contributions are made by an employee, an employer, or both.

If you become eligible and enroll in an HSA anytime between January 1 and December 1 of the current tax year, you are allowed to make the full contribution regardless of the date you actually enroll in the qualified HSA-compatible health plan (see IMPORTANT NOTE below).

IMPORTANT NOTE: In this case you must have coverage under a qualified HSA-compatible health plan (e.g. high deductible health plan) and remain eligible for 12 months after the end of the calendar year in which you enrolled in an HSA-compatible health plan. If you are not covered by an HSA-compatible health plan for 12 months after the end of the calendar year in which you enrolled in an HSA-compatible health plan, you will be subject to income tax and a 10% penalty tax on HSA contributions for months not covered by an HSA-compatible health plan.

The total contribution for the year can be made in one or more payments at any time up to your tax-filing deadline (without extensions.) However, if you wish to have a contribution made between January 1 and April 15 treated as a contribution for the preceding taxable year, you must provide written notification to your HSA custodian at the time such contribution is made. Otherwise, it will be treated as a contribution for the current taxable year.

What is the allowable “catch-up” contribution amount?

The maximum “catch-up” contribution amount for the 2011 and 2012 tax year is \$1,000 per tax year. Each spouse (age 55 or older) can contribute up to \$1,000 into his or her own HSA. If you did not have an HSA-compatible health plan, such as a high deductible health plan (HDHP), for the full year, you must pro-rate your “catch-up” contribution for the number of full months you were “eligible” (i.e., had HDHP coverage). If you had an HSA-compatible health plan for the entire year, you can deposit the entire “catch-up” amount starting with the year you turn 55, regardless of when you turn 55 during the year.

In the year you enroll in Medicare, you must pro-rate your “catch-up” contribution for the number of months you had an HSA-compatible coverage, prior to the month your Medicare enrollment is effective. You can delay enrollment in Medicare Part A only if you delay taking Social Security. You can delay taking Social Security up until age 70 and one half years old.

Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including “catch-up” amounts, to their HSA. If you are not enrolled in Medicare, you can contribute to your HSA and continue to make “catch-up” contributions.

Can I transfer funds from an IRA into my HSA?

You are allowed a one-time, tax-free trustee-to-trustee transfer of IRA funds into an HSA. Funds transferred from an IRA are subject to the maximum contribution limits and should be included in your total annual

contribution. Also, you must remain covered under an HSA-compatible health plan for 12 months after the transfer occurs. Otherwise, the funds transferred will be treated as taxable income and subject to a 10% penalty tax.

When is the deadline for making contributions to an HSA for any particular year?

You may make HSA contributions for a particular year no later than the deadline (without extensions) for filing your federal income tax return for that year. For calendar year taxpayers, this is generally April 15 following the year for which the contributions were made. However, your HSA custodian will treat any contribution made between January 1 and April 15 as a contribution for the current taxable year unless you provide written notice to the HSA custodian at the time of such contribution.

What is an “excess contribution” and what happens if this occurs?

A contribution made by you or your employer to an HSA that exceeds the amount allowed by law, or which is made during any year when you are not eligible to contribute, is called an “excess contribution.” Excess contributions including any income earned on the excess contributions should be removed from your HSA prior to filing your federal income tax return for that tax year. Excess contributions that are not removed will be subject to a 6% penalty tax each year the excess remains in the account. Please consult your tax advisor or accountant to determine the proper handling of excess contributions, since this may vary based on whether you or your employer are responsible for the excess, which tax year the excess was discovered and whether earnings were involved.

Eligible Expenses to Withdrawal from a Health Savings Account

What expenses are eligible for tax-free distributions from my HSA?

Distributions made for “qualified medical expenses” are generally excludable from income. For this purpose, the term “qualified medical expenses” means amounts paid for the medical care, as defined in Section 213(d) of the Code, for yourself, your spouse, or your dependents, but only if the expenses are not covered by insurance. This includes amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease or for the purpose of affecting any structure or function of the body, as well as for transportation primarily for and essential to such care. If you incur healthcare expenses before your HSA is established, those expenses will not be considered qualified medical expenses. In addition, qualified medical expenses do not include insurance premiums other than premiums for long-term care insurance, premiums on a health plan during any period of continuation coverage required by Federal law (e.g., “COBRA” coverage), or premiums for health care coverage while an individual receives unemployment compensation. For more information, please refer to IRS Publication 502.

Do I need to keep my receipts?

You must keep all receipts showing expenditures or distributions from your HSA. There are two key reasons to keep your receipts: 1) if you exceed your deductible, you may need the receipts to send to your insurer, and 2) in case you are audited by the IRS, you need to explain your HSA expenditures.

When can I receive distributions from an HSA?

You can take a distribution from your HSA at any time. A transfer of funds from your HSA to another investment option made available through us is not considered a “distribution,” and remains part of your HSA custodial account.

If I change health plans and am no longer covered by an HSA-compatible health plan, can I still use my HSA funds to pay for healthcare expenses?

Yes, you can continue to use your HSA funds to pay for out-of-pocket healthcare expenses if you decide not to continue coverage in an HSA-compatible health plan. However, you can only contribute to an HSA when you are enrolled in an HSA-compatible health plan.

If I have a Health Savings Account, can I withdraw money at any time for medical expenses?

Yes, as long as the money has been deposited in your account. Remember, this is a savings account so the money needs to be available at time of withdrawal.

Tax Questions about a Health Savings Account

How are distributions from an HSA taxed?

Distributions from an HSA for the qualified medical expenses for you or your spouse or dependents who are covered by the High Deductible Health Plan are generally excludable from income for Federal income tax purposes if such expenses are not covered by insurance. Distributions used for purposes other than a qualified medical expense, will be subject to both income tax and a 20% penalty tax beginning in 2011, unless the person who makes a withdrawal from their HSA is age 65 or older, is disabled or deceased.

When am I subject to the 20% penalty tax?

If you use your HSA funds for non-qualified medical expenses, those funds will be applied to your gross income and taxed accordingly. In addition, a penalty tax is applied when using your HSA funds for non-qualified medical expenses. The penalty tax does not apply to distributions made after your death, disability or attainment of age 65.

If I am a retiree and age 65 or older, may I receive tax-free distributions from an HSA to pay my contribution to my employer's retiree health coverage?

After you reach age 65, you may receive tax-free distributions from an HSA to pay for your employer's retiree health insurance coverage. Although the purchase of health insurance is generally not a qualified medical expense that can be paid or reimbursed by an HSA, the Code provides an exception for coverage for health insurance once an account beneficiary reaches age 65. This exception applies to both insured and self-insured plans.

If I am a retiree who is enrolled in Medicare, may I receive a tax-free distribution from an HSA to reimburse my Medicare premiums?

Yes, this type of distribution will be tax-free. When premiums for Medicare are deducted from Social Security benefit payments, an HSA distribution to reimburse an amount equal to the Medicare premium deduction is considered a qualified medical expense.

What is the tax treatment of an eligible individual's HSA contributions?

When you make an eligible contribution to an HSA, the amount of your contribution up to the maximum contribution limit is deductible in computing your adjusted gross income provided the contribution is not made through pre-tax payroll contributions. This means that your contributions are deductible whether or not you itemize deductions. In addition, any person who may be claimed as a dependent on another taxpayer's return may not claim a deduction for a contribution to an HSA. A special rule applies to certain married individuals. If either spouse has family coverage under an HSA-compatible health plan, both spouses will be treated as

having family coverage. The amount allowable as a deduction after application of this rule shall be divided equally between the spouses unless they agree on a different division. If you are contributing view pre-tax payroll contributions, you have already received the tax benefit and you do not deduct these amounts on your tax return.

Are my funds FDIC insured?

All participant funds that are not invested in the available mutual fund options are separately insured by the FDIC pursuant to Treasury Regulation 12 C.F.R. § 330.5.

Questions for Employee Who Choose Payroll Deductions to PayFlex UMB Account

What if I forgot to use my PayFlex Card® for a transaction, how do I request reimbursement from my HSA?

You can request a reimbursement from your HSA online. Login to your HealthHub account, click on Financial Center on the top navigation bar and select Request Reimbursement under Health Savings Account. After completing all required fields, your transaction will be submitted to the bank and can take anywhere from 24-48 hours depending on your bank.