Health Savings Accounts Frequently Asked Questions

2021 Plan Year

Contents

Section I: Learning about Health Savings Accounts (HSAs)

1. What is a health savings account (HSA)?

An HSA is a tax-advantaged personal savings account that can be used to pay for medical, dental, vision, and other qualified expenses now or later in life.

2. Are all State employees eligible to enroll in the Anchor Choice Plan with HSA?

All State employees are eligible to enroll in Anchor Choice Plan with HSA. However, IRS rules apply to HSA contributions and withdrawals.

3. What are the requirements for opening an HSA through the State of RI?

In order to open and contribute to an HSA, you must meet the following conditions:

- You must be enrolled in the **Anchor Choice Plan**, which is an HSA-eligible high-deductible health plan (HDHP);
- You must not be covered by any other health plan that is not an HDHP (this includes a general purpose health care flexible spending account);
- You must not be enrolled in Medicare (including Parts A and/or B), TRICARE or TRICARE For Life;
- You must not be claimed as a dependent on someone else’s tax return; and
- You must not have received VA benefits within the past three months, except for preventive care (this exclusion does not apply if you are a veteran with a disability rating from the VA).

4. Will the State contribute any money to my HSA?

Yes. The State's contribution to your HSA will be $1,500 if you have individual coverage or $3,000 if you have family coverage. This contribution is enough to cover the entire annual deductible for the Anchor Choice Plan!

These contributions are made biannually with half deposited on January 1 and the other half deposited on July 1. The State's HSA contributions are not prorated for employees who enroll after those dates.

5. How does an HSA help me save?

An HSA is a great way to save money. Not only are you able to receive an annual contribution from the State, but you can contribute, too. As long as you maintain a balance of at least $1,000 in your HSA, you can invest the money in your account for even greater earnings potential.[1] But even without all of that, you save on taxes.

- The State funds your HSA *up to the deductible* of your coverage.
- Your direct payroll contributions are made on a pretax basis, which reduces your taxable income.
- Money that is withdrawn from an HSA to pay for qualified medical expenses is income-tax-free.
- Accounts earn interest, and this growth, as well as any investment-based growth, is not taxable.
- HSA funds not spent during the plan year carry over to subsequent plan years.

6. Who administers the HSA account?

UMB Bank is the custodian of the Blue Cross & Blue Shield of Rhode Island (BCBSRI) HSA, but you will be able to log in and manage your account (check your balance, change your contribution amount) through the Blue Cross & Blue Shield of Rhode Island website.

7. Is there a limit on how much I can put into my HSA each year?

Yes, the IRS puts annual limits on how much can be contributed to an HSA. For current limits, please see the Contributions tab on the HSA page. These limits include contributions from your employer and any contributions you choose to make. If you are 55 years of age or older, but not yet enrolled in Medicare benefits, you can deposit an additional $1,000 per year as a catch-up contribution.

8. Can I increase, decrease, or stop my HSA payroll contribution anytime?

Yes, you can change or stop your HSA contribution at any time during the year, by submitting a completed *HSA Payroll Deduction Authorization Form* to the Office of Employee Benefits. You can submit your form by email to doa.oeb@doa.ri.gov or fax to 401-574-9281.

---

[1] *UMB Bank investment accounts are subject to an additional fee, are not FDIC insured, not bank guaranteed, and may lose value.*

9. Can I participate in the Anchor Choice Plan without opening an HSA?

No, it's a benefit you receive automatically. When you enroll in the Anchor Choice Plan, an HSA will automatically be opened for you, and the State will make contributions to the account. You do not have to make other contributions to the HSA.

10. Can I stay in the Anchor Plan or the Anchor Plus Plan and open an HSA account?

No. Only employees who enroll in the Anchor Choice Plan are eligible to open an HSA account.

11. If my spouse has his or her own health coverage, how would that impact our ability to make HSA contributions?

It depends on the exact health coverage that you and your spouse have. See the table below for details.

HSA contributions for employee and their spouse					
	Spouse has no health plan coverage	**Spouse has self-only non-HDHP coverage**	**Spouse has self-only HDHP coverage**	**Spouse has family non-HDHP coverage**	**Spouse has family HDHP coverage**
Married employee with self-only non-HDHP coverage	*Employee/spouse*: no contributions	*Employee/spouse*: no contributions	*Employee*: no contributions *Spouse*: may contribute up to individual annual limit	*Employee/spouse*: no contributions	*Employee*: no contributions *Spouse*: may contribute up to family annual limit
Married employee with self-only HDHP coverage	*Employee*: may contribute up to individual annual limit *Spouse*: no contributions	*Employee*: may contribute up to individual annual limit *Spouse*: no contributions	*Both employee and spouse:* eligible for contributions. Each may contribute up to individual annual limit to their respective HSAs	*Employee*: no contributions if employee is covered under spouse's coverage. If not covered, employee may contribute up to individual annual limit *Spouse*: no contributions	*Both employee and spouse:* eligible for HSA contributions and are treated as having only the family coverage. Total contribution (employee and spouse combined) may not exceed the family annual limit

HSA contributions for employee and their spouse					
Married employee with family non-HDHP coverage	*Employee/spouse:* no contributions.	*Employee/spouse*: no contributions.	*Employee*: no contributions *Spouse*: no contributions if spouse is covered under employee's coverage. If not covered, spouse may contribute up to individual annual limit	*Employee/spouse*: no contributions	*Employee*: no contributions *Spouse*: no contributions if spouse is covered under employee's coverage. If not covered, spouse may contribute up to family annual limit
Married employee with family HDHP coverage	*Employee*: may contribute up to family annual limit *Spouse*: no contributions	*Employee*: may contribute up to family annual limit *Spouse*: no contributions	*Both employee and spouse:* eligible for HSA contributions and are treated as having only the family coverage. Total contribution (employee and spouse combined) may not exceed the family annual limit	*Employee*: no contributions if employee is covered under spouse's coverage. If not covered, employee may contribute up to family annual limit *Spouse*: no contributions	*Both employee and spouse:* eligible for HSA contributions and are treated as having only the family coverage. Total contribution (employee and spouse combined) may not exceed the family annual limit

12. What can I use my HSA for?

You can use your HSA funds:

- To pay for qualified medical, dental, vision, and prescription drug expenses, including certain over-the-counter drugs, as defined in IRS Publication 502, "Medical and Dental Expenses."
- As supplemental income after age 65. Once you are 65, you can withdraw funds for any reason without paying a penalty, but they will be subject to ordinary income tax.
- For any reason, but if you are under age 65 and use your HSA funds for nonqualified expenses, you will need to pay taxes on the money you withdraw, as well as an additional 20% penalty.

13. What are HSA-eligible expenses?

Below is a sampling of qualified medical expenses that you can pay for with your HSA. See IRS Publication 502, "Medical and Dental Expenses," for a complete list of qualified expenses. (See question 15 for rules regarding ineligible expenses.)

Acupuncture
Ambulance
Birth control pills
Braces
Cancer treatment
Chemical dependency treatment
Childbirth/delivery
Chiropractor services
Contact lenses
Deductibles
Dental treatment
Diagnostic tests
Durable medical equipment
Eyeglasses
Eye surgery
Hearing aids
Hospital services
Insulin treatment
Laboratory fees
Long-term care
Machine tests
Medicare Part D premiums
Mental health
Neurologist services
Nursing home
Optometrist services
Prescription drugs
Psychiatric care
Psychologist services
Smoking cessation programs
Surgeon fees
Transplants
Transportation for health care
Vision expenses
X-ray fees

Please note: The CARES Act expanded the list of qualified expenses to include certain healthcare products and services, including over-the-counter (OTC) items such as cold medicines and feminine care products. If you have questions about HSA-eligible expenses, please contact BCBSRI.

14. Can my HSA be used to pay insurance premiums?

Insurance premiums are generally not considered qualified medical expenses and would be subject to taxes and penalty. However, the following types of insurance premiums typically do qualify:

- COBRA continuation coverage
- Qualified long-term care insurance contract
- Any health plan maintained while an individual is receiving unemployment compensation

- For account holders age 65 and over (i.e., those eligible for Medicare), premiums for any health insurance (including Medicare and Medicare Part D premiums) other than a Medicare supplemental policy

See IRS Publication 502, "Medical and Dental Expenses," for more detail.

15. What happens if I use my HSA to pay for ineligible expenses?

Any funds you withdraw for nonqualified expenses will be taxed at your income tax rate plus 20% tax penalty if you're under 65. For example, if the expense was $100, the $100 would be considered taxable income, and you would also pay an additional $20 tax penalty. The 20% tax penalty does not apply if the account holder is age 65 and older.

16. Can I use the HSA for my spouse or dependents if they're not covered under my plan?

You can use the HSA to pay for qualified expenses of any family member if they are claimed as a spouse or dependent on your taxes. If a tax dependent is not covered under your plan and you use your HSA to pay for their expenses, those expenses will not go toward your deductible.

17. Do I have to spend all my contributions by the end of the plan year?

No. HSA money is yours to keep. Unlike a flexible spending account (FSA), unused money in your HSA isn't forfeited at the end of the year. It continues to grow, tax-deferred.

18. What happens if I leave my current employer, change health plans, or retire?

The money in your HSA is yours to keep. If you leave State service, change health plans, or retire, you take your HSA with you. If you switch to a health plan that makes you ineligible to continue contributing to your HSA, you may continue to use the money in your account for qualified medical expenses, but you can no longer make contributions. If you switch from Anchor Choice to a different Anchor medical plan option, payroll contributions to your account will stop automatically. Otherwise, if you want to stop your HSA contribution at any time during the year, submit a completed *HSA Payroll Deduction Authorization Form* to the Office of Employee Benefits. You can submit your form by email to doa.oeb@doa.ri.gov or fax to 401-574-9281.

19. I want my HSA dollars to go as far as possible. How can I find out how much a treatment or procedure is going to cost?

After you enroll, you can use the My Cost Calculator tool in your BCBSRI online account. You can compare costs for procedures at different facilities, based on your health plan.

20. How do I pay with an HSA?

Your HSA is similar to a checking account. Payments can be made with your HSA debit card, online from your HSA account, or with an HSA check. You also can pay out of pocket and then reimburse yourself from your HSA (as long as you have a receipt and the HSA was open at the time you made the purchase).

21. Is there a monthly maintenance fee for the BCBSRI HSA account with UMB Bank?

You will pay no fee as long as you remain enrolled in the Anchor Choice Plan. However, you are responsible for any maintenance fee if you disenroll from the Anchor Choice Plan for any reason.

22. Is there a fee for the HSA debit card? Can I request additional cards?

There is no fee for the debit card. You can request additional cards for dependents at no cost.

23. If I paid a health care bill with my credit card, can I pay myself back from my HSA?

Yes, as long as the service is a qualified expense incurred while you were enrolled in Anchor Choice with an active health savings account. You can submit your paid receipt to be reimbursed out of your HSA and pay yourself back with no penalty. Log on to your BCBSRI account for more information.

24. Can I use any bank for my HSA?

No. An HSA account will automatically be opened for you at UMB Bank, and the State will only make contributions to that account. Also, any payroll contributions you make will go into that account. You could then transfer those funds into another bank's HSA, subject to any applicable transfer fees.

25. Does the HSA account earn interest?

Yes! You earn interest on the money in your account. And, as long as you maintain a balance of at least $1,000 in your HSA, you can elect to begin investing the balance in mutual funds, for the potential of even greater growth.[2] Log in to your BCBSRI account to get started.

Section II: Managing Your HSA

1. What are the HSA deposit options?

- Pretax payroll deduction, elected when you are eligible to enroll in the Anchor Choice Plan
- A paper check (deposit additional dollars into your account by April 15 of the current year in order to realize tax savings for the prior year)
- Online (arrange a one-time or regular electronic transfer from an account at another financial institution)

2. Are HSA funds available immediately?

Only deposited funds in the account are available for immediate usage. Employee HSA payroll contributions will be available within one business day of payroll check date.

---

[2] *UMB Bank investment accounts are subject to an additional fee, are not FDIC insured, not bank guaranteed, and may lose value.*

3. How do I make contributions to my HSA outside of payroll deductions?

You can do this electronically or with a paper check:

- **Electronically:** You can process electronic deposits through your BCBSRI account online. After logging in to your BCBSRI account, click **Your HSA** and you will see your HSA dashboard.
  - — Click on the HSA balance.
  - — Then click on the **Contributions** tab.
  - — The first time you do this, you will need to **Add Bank Account**.
  - — When you've done that, click on **Add Contributions** to start an electronic deposit.

- **Paper check:** First, you will need to complete a UMB HSA Deposit Form. You'll find this in your BCBSRI account online. After logging in to your BCBSRI account, click **Your HSA** and you will see your HSA dashboard.
  - — Choose **Document & Forms**.
  - — Choose the form titled "HSA Member Contribution Form – Personal Deposits Only."
  - — Mail the form and check made payable to UMB Bank to:

    UMB Bank Contributions
    P.O. Box 874264
    Kansas City, MO 64187-4264

Please note: If you make a direct contribution (i.e., from outside the payroll system) and you exceed the allowable IRS annual maximum, your excess payroll contribution will be unavailable for at least one pay period. The excess payroll contribution will be returned to you in your next paycheck. Therefore, if you plan to make direct contributions, please consider adjusting your payroll contribution so that you do not exceed the annual maximum.

4. Do I need to save my receipts?

Yes, you should save your receipts in case of an IRS audit. You can load them into your BCBSRI HSA account if you wish.

5. Can I control how the funds are invested?

Yes. Once your HSA cash account balance reaches $1,000, you can transfer funds to an HSA investment account. If you maintain a balance of at least $1,000 in your HSA, you can choose from a selection of mutual funds and set up an allocation model for future transfers. You can transfer money between your HSA cash and HSA investment account at any time.

6. What tools are available for managing my HSA account online?

- Check your balance
- Arrange deposits from another bank account

- Pay bills to health care providers
- Use the convenient online claims submission
- Reimburse yourself for qualified medical expenses paid out of pocket
- Use HSA calculators
- Check the contribution tracker for year-to-date contribution amounts
- Manage investment activities for your HSA

7. Is there an app for the BCBSRI HSA?

Yes. You can download the BlueSolutions Spending on the Go app to manage your HSA. View your account balances, update your profile, and submit a claim.

Section III: Making Changes Once You Have an HSA

1. What if I want to switch plans?

If you enroll in the Anchor Choice Plan, you are committed to the plan for the entire plan year. At the next Open Enrollment period, you can make a new health plan election for coverage effective January 1 of the following year.

2. If I enroll in the Anchor Choice Plan and decide to change plans at the next Open Enrollment, what happens to the money in my HSA?

The money in your existing HSA is yours to keep. You can still use it to pay qualified medical expenses, but you will not be able to make contributions to it.

3. Will the State's contribution be prorated if I enroll in the Anchor Choice Plan during the year due to a status change or if I'm newly hired?

No. The State's contribution is made in two deposits. The first deposit (half of the contribution amount) occurs on January 1, and the second deposit (half of the contribution amount) occurs on July 1. You must be enrolled on the date the deposit is scheduled in order to receive the State's contribution. (For example, an employee who was hired and enrolled effective January 3 will only receive the State's contribution on July 1. An employee hired and enrolled effective July 3 will not receive any State contribution for the plan year.)

4. I have an existing HSA from a previous employer. Can I roll over my existing HSA balance into a BCBSRI account?

Yes. If you enroll in the Anchor Choice Plan and an account is opened for you, you can roll over your existing HSA balance into your BCBSRI HSA account. You can do this at any time after your enrollment takes effect. There are a few things to consider:

- It is recommended that you wait about a month after your BCBSRI HSA is opened to do this. That way, you will have made some HSA contributions, and you'll have HSA funds to use while your money is being moved.
- Use the form in your BCBSRI online account to request the transfer. Also check with your existing institution to see if you must also use their transfer form.
- Your current HSA bank may charge a fee to transfer funds (rollover) from your existing account to your new BCBSRI HSA account. Contact your current HSA bank for information.

5. How long does a rollover take?

The transfer process can take up to two weeks. During that time, you will not be able to access funds from your existing account.

6. What happens to my HSA if I die?

You should assign a beneficiary to your account (online or via paper form) as soon as your HSA is opened.

- If no beneficiary is elected, your estate will be deemed to be the beneficiary.
- If your spouse is designated as a beneficiary, it will become your spouse's HSA with all the associated tax benefits.
- If anyone other than your spouse is designated as the beneficiary:
  - Your account ceases to be an HSA.
  - The fair market value of your HSA will be treated as taxable income to the beneficiary.
  - The account can be used for the decedent's expenses on a tax-free basis if used within one year after death.

7. Can I still have a health care flexible spending account (FSA) if I have an HSA?

The limited purpose health care FSA is available to employees who have elected the Anchor Choice Plan. Because the Anchor Choice Plan has a health savings account component attached to it, the IRS prohibits combining it with a general purpose health care FSA. A limited purpose health care FSA is allowed, because it is limited to eligible dental and vision expenses. You may contribute up to $2,750 to a limited purpose health care FSA, and you can roll over up to $550 of unspent contributions from year to year. Some examples of limited purpose health care FSA eligible expenses are:

- Copays, deductibles, and coinsurance for dental or vision expenses
- Dental exams, X-rays, fillings, orthodontia, crowns, bridges, implants, and dentures not reimbursed under the dental plan
- Vision exams, eyeglasses, prescription sunglasses, and contact lenses/solution not reimbursed under the vision plan

For more specific information about HSA and FSA, see Section 5 – HSA and Flexible Spending Account below.

Section IV: HSA and Medicare

Note: Many people are automatically enrolled in Medicare Part A when they turn 65. **If you are enrolled in Part A, you are enrolled in Medicare.**

1. Can I continue contributing to my HSA if I am Medicare-eligible (but have not signed up for Medicare)?

Maybe, depending on your situation:

- If you're eligible for Medicare *but have not filed an application for either Social Security retirement benefits or Medicare*, you don't need to do anything. You have the right to postpone applying for Social Security and Medicare—and therefore can continue to contribute to your HSA—until you stop working. There is no penalty for this delay, and when your employment ends, you will be entitled to a special enrollment period to sign up for Medicare.
- If you're entitled to Medicare because you signed up for Part A at age 65 or later (perhaps not realizing that it could affect the use of your HSA) *but have not yet applied for Social Security retirement benefits*, you can withdraw your application for Part A. To do so, contact the Social Security Administration at 800-772-1213. There are no penalties or repercussions, and you are free to reapply for Part A at any future date.
- *If you have applied for, or are receiving, Social Security benefits—which automatically entitles you to Part A*—you cannot continue to contribute to your HSA. In these circumstances, the only way you could opt out of Part A would be to pay back to the government all the money you've received in Social Security payments, plus everything Medicare has spent on your medical claims. You must repay these amounts before your application to drop out of Part A can be processed. If you take this action, you're no longer entitled to Social Security or Medicare, but you can reapply for both at any time in the future (for example, if you end or lose your HSA coverage).

2. When I enroll in Medicare, can I continue contributing to my HSA?

You cannot contribute to an HSA in any month that you are enrolled in Medicare. In the year you enroll in Medicare, your total contribution (your contribution plus the State's) must be prorated. For example, if you enroll in Medicare in July, your HSA contribution must reflect the fact that you were eligible to contribute to your HSA for only half of the year (January through June).

3. I'm enrolled in Medicare. Can I still be covered under my spouse's HSA-eligible plan through his or her employer?

Yes, and you can continue to use funds from your working spouse's HSA for qualified expenses.

4. If my spouse or dependent is enrolled in Medicare, can I open and contribute to an HSA?

Yes, if a spouse or dependent will be or is already covered by Medicare, you can still sign up for the Anchor Choice Plan and open and contribute to an HSA if you are eligible *(see question 3)*. If you file

taxes jointly with your spouse, you can use your HSA to help pay for your spouse's qualified expenses, such as Medicare premiums.

5. I'm 65 or older and not enrolled in Medicare. What happens to my HSA when I decide to retire?

When you retire and enroll in Medicare, you may no longer *contribute* to your HSA. However, you may *withdraw* money from your HSA for medical and non-medical purposes without penalty. When your Medicare coverage starts, you can use your HSA to pay your Medicare premiums, deductibles, and copayments.

Important: You need to stop contributing to your HSA six months before you apply for Social Security retirement benefits to avoid tax penalties. If you're already at least six months beyond your full retirement age (currently 66) when you finally sign up for Social Security retirement benefits, Social Security will give you six months of back pay in retirement benefits. This means that your enrollment in Part A (and therefore in Medicare) will also be backdated by six months. Under IRS rules, you cannot contribute to an HSA in any month that you are enrolled in Medicare, so you will be liable to pay six months of taxes on any HSA contributions made up to that point.

6. I enrolled in Medicare under age 65 due to a disability. Can I participate in the Anchor Choice Plan?

Yes, but as long as you are enrolled in Medicare, you will not be able to contribute to an HSA. You also will not receive any HSA contributions from the State.

Section V: HSA and Flexible Spending Accounts

1. Can I have an HSA and a health care flexible spending account (FSA)?

Yes and no. Per IRS rule, you cannot maintain both a *general purpose* health care FSA (GP FSA) and an HSA. A GP FSA counts as other health coverage that renders you ineligible for an HSA. But the law does permit an HSA holder to contribute to and maintain a *limited purpose* health care FSA (LP FSA). An LP FSA can only be used to pay for eligible dental and vision expenses, as well as preventive health care expenses.

2. If my spouse has a GP FSA through another employer, can I open an HSA?

Probably not. Unless your spouse's GP FSA is an "employee-only" or "employee plus children only" GP FSA, you would be covered by your spouse's GP FSA and would be ineligible to open an HSA.

3. If I am covered under a high-deductible health plan through my spouse's employer, can I contribute to a State-sponsored GP FSA?

Yes. However, you should consider electing an LP FSA so your spouse can remain eligible for HSA contributions. If you elect the GP FSA, your spouse will lose his or her eligibility to contribute to an HSA, because your GP FSA automatically covers your spouse and is considered disqualifying health coverage for HSA eligibility purposes.

4. If I am currently enrolled in a GP FSA and want to enroll in the Anchor Choice Plan during the next Open Enrollment, what happens to remaining funds in my GP FSA as of the end of the current plan year?

If you enroll in the Anchor Choice Plan during the next Open Enrollment and you have $550 or less remaining in your GP FSA at the end of the current plan year, the remaining amount will be rolled over to an LP FSA for the next plan year—regardless of whether you elect to open an LP FSA. Any amount over $550 will be forfeited. For further details about FSA carryover and forfeiture, please see the FSA FAQ.