

Your HSA handbook for

---

# Blue Options HSA<sup>SM</sup>



# Welcome to

## Blue Options HSA

Your plan for better health.<sup>SM</sup>



Blue Options HSA is a new way to pay for health care. We've taken the PPO (Preferred Provider Organization), our most popular plan design, and paired it with a health savings account (HSA),<sup>1</sup> which has similar characteristics to a 401(k) or an IRA but for qualified medical expenses. Blue Options HSA offers many advantages, including:

### Savings

- **A high deductible health plan means lower premiums**
- **HSA is a tax-free savings account for current and future medical expenses**
- **HSA balance rolls over year-to-year**
- **HSA is portable and always owned by you**
- **Save for future medical expenses or retirement**

### Simplicity

- **A health plan and an HSA in one**
- **One online application process**
- **24/7 online account management**
- **Convenient claim payment options, including a debit card or checkbook**
- **Dedicated account service**

### Reliable health care

- **Our largest network**
- **Access to over 85% of U.S. health care providers<sup>2</sup>**
- **Access to specialists with no referrals<sup>3</sup>**

This handbook is intended to assist you in understanding and using your HSA through Blue Options HSA. This document provides some general information regarding high deductible health plans to help you better understand your own plan. However, this document is not intended to provide you with information about your specific high deductible health plan. Please refer to your Blue Options HSA Benefit Book for the terms and conditions applicable to your high deductible health plan.

## Table of contents

Introduction .....	Page 2
Glossary.....	Pages 2-3
Quick facts.....	Page 4
General HSA information.....	Page 5
HSA eligibility requirements.....	Pages 5-6
HSA contributions.....	Pages 7-8
Using your HSA funds.....	Pages 9-11
HSA tax benefits and required IRS reporting.....	Pages 12-13
Our built-in HSA.....	Pages 14-16
What to expect at your provider's office or pharmacy..	Pages 17-18
Additional information and resources.....	Page 18

**NOTE:** This handbook is a reference tool only. It is not intended to provide legal, medical or tax advice.

Much of the information offered in this handbook was gathered from federal guidelines (as of July 2007) and from the Web site of the United States Department of the Treasury ([www.ustreas.gov](http://www.ustreas.gov)). The information is combined here for your convenience. Federal guidelines and interpretations are subject to change. Additional information on federal guidelines is available at <http://www.ustreas.gov/offices/public-affairs/hsa/>.

## Glossary

Here are definitions for terms commonly used throughout this handbook:

### Coinsurance

The form of cost-sharing for which you pay a percentage of the cost of covered medical services as an out-of-pocket payment to your provider. A common arrangement requires you to meet your deductible and then pay 10% of the cost of a health service. The plan pays the remaining 90%. You have an out-of-pocket maximum on the amount you are required to pay per benefit period. When this out-of-pocket maximum is met, the plan's payment increases to 100% for covered services.

### Contributions

Money that you, your employer or someone else puts into your HSA. Contributions can usually be made on an ongoing basis through payroll deduction, bank draft or in lump-sum payments. Contributions are usually pre-tax or tax deductible, but are subject to annual limitations.

### Deductible

The amount of expense for covered services that you must incur before your insurance benefits apply for all or part of the remaining cost of covered services. With Blue Options HSA, you'll choose from either individual or family (aggregate) deductibles. Deductibles are usually fixed dollar amounts, such as \$2,000 or \$3,000, and are tied to your specific benefit period.

### Distributions

The money you withdraw from your HSA. Distributions can be made in a variety of ways, including the use of an HSA checkbook and/or an HSA debit card.

### Enhanced preventive care

First dollar (pre-deductible) coverage for a defined list of preventive care services determined by Blue Cross and Blue Shield of North Carolina (BCBSNC) will be an available option for Blue Options HSA plans. Refer to your Benefit Book for the defined list.



## Glossary (continued)

---

### **Family (aggregate) deductible**

A deductible that has to be met before any benefits are payable for any given member in a family. Under a family or aggregate deductible, services for all family members who are covered under the plan get applied to the same deductible.

### **Flexible spending account (FSA)**

Used to cover qualified medical expenses and dependent day care expenses. You pre-determine an amount you will contribute at the beginning of the benefit period. Contributions to your FSA are tax-free and are made through salary reduction. Funds not used by the end of the benefit period may be forfeited, depending on the terms of your FSA. This is known as the “use it or lose it” rule. FSAs can be offered in tandem with an HSA only under limited circumstances. For further details, see the “HSA eligibility requirements” section.

### **Health reimbursement account (HRA)**

A specific type of fund account offered by employers that can be combined with your health care plan to allow you reimbursement for approved out-of-pocket medical expenses. Your employer allocates a set amount of money to your account and you can use the money to pay for eligible medical expenses.

### **Health savings account (HSA)**

An HSA is a tax-free way to help pay for current or future out-of-pocket health care expenses. To be eligible to open an HSA and begin saving money for medical expenses tax-free, you must be covered by a high deductible health plan. An HSA can be established through a custodian or trustee and used with your high deductible health plan to pay for out-of-pocket expenses. Dollars that are not used in a given year roll over into the next year and are completely portable should you change jobs or switch health coverage.

### **High deductible health plan (HDHP)**

A health plan product that, when combined with an HSA, provides insurance coverage and a tax-advantaged way to help save for future medical expenses. HDHPs have a higher annual deductible than traditional health plans and must meet other specific federal guidelines.

### **HSA trustee or custodian**

The bank or financial institution responsible for managing the funds in an HSA. The trustee or custodian may also handle any necessary IRS reporting. An HSA can be established through a qualified trustee or custodian who is different from the plan provider.

### **Out-of-pocket maximum**

The maximum amount you are required to pay in a benefit period before you receive benefits at 100% of covered services. This maximum includes deductible and coinsurance.

For a full glossary of health care terms, visit [bcbsnc.com](http://bcbsnc.com).



## Quick facts

---

### Quick facts

#### What is Blue Options HSA?

Blue Options HSA utilizes the PPO, our most popular plan design, and pairs it with a health savings account (HSA), which has similar characteristics to a 401(k) or an IRA but for qualified medical expenses. To make contributions toward an HSA, you must enroll in an IRS-qualified high deductible health plan (HDHP), such as Blue Options HSA. You, your employer (if applicable) or anyone else can contribute to your HSA. HSA funds can be used toward satisfying the deductible for your health plan as well as for prescription drugs, over-the-counter medications, physical and mental therapy, LASIK eye surgery and other qualified medical expenses.<sup>4</sup>

#### HDHP requirements

HDHP requirements are updated annually to account for inflation. For example, the federal HDHP requirements in 2008 are as follows:

- **A minimum deductible of \$1,100 for individuals (\$2,200 for families)**
- **A total out-of-pocket maximum of \$5,600 for individuals (\$11,200 families)**
- **No coverage (other than preventive care) prior to meeting the deductible**

**NOTE:** Family coverage is considered anything other than individual coverage. A couple enrolled on “employee + spouse” coverage would be subject to family guidelines. These limits apply to plans with both in-network and out-of-network benefits. The out-of-pocket maximum includes all out-of-pocket expenses, including the deductible. For the most up-to-date list of HDHP requirements, visit the member section of [bcbsnc.com](http://bcbsnc.com).

#### HSA eligibility

According to federal guidelines, you may open and contribute to an HSA if you meet all of the following criteria:

- **You are covered under a high deductible health plan (HDHP) on the first day of the month**
- **You are not covered by any other non-HDHP plan (with certain exceptions for plans providing certain limited types of coverage like vision and dental)**
- **You are not enrolled in Medicare**
- **You are not claimed as a dependent on another person’s tax return**

You can find more information on eligibility at [www.ustreas.gov/offices/public-affairs/hsa/](http://www.ustreas.gov/offices/public-affairs/hsa/). If you are unsure as to your eligibility to contribute to an HSA, check with a qualified tax advisor for assistance.

#### HSA contribution limits

- **These amounts are updated each year by the federal government to account for inflation. For example, in 2008, the maximum annual contribution is \$2,900 for individual and \$5,800 for family.**
- **In 2008, those between the ages of 55 and 64 can contribute an additional \$900 above the maximum to their HSA. This “catch-up” allowance is scheduled to increase to \$1,000 for 2009 and beyond.**
- **Additionally, one-time rollover opportunities from other funds, such as an FSA, HRA and/or an IRA, are allowed in certain situations.**

For the most up-to-date list of HDHP contribution limits, visit the member section of [bcbsnc.com](http://bcbsnc.com).

**Reference info:** US Treasury webpage

### **Do I have to have an HDHP to open an HSA?**

Yes, you must have an HDHP to open an HSA. If you later disenroll from your HDHP, you can keep your HSA but you can no longer contribute to it.

### **How is an HSA different from a savings account?**

The funds in a regular savings account do not have the tax advantages of the HSA. With an HSA, contributions, interest earnings and withdrawals for qualified medical expenses are not subject to federal income taxes.

### **Are HSAs subject to COBRA continuation coverage?**

No, HSAs are not subject to COBRA continuation coverage, but your HDHP may be. If you leave your employer, are eligible for and elect COBRA to continue your HDHP, your HSA will remain in your name and you will continue to have access to the funds for qualified medical expenses.

## HSA Eligibility requirements

### **Can I have other health coverage in addition to my HDHP?**

According to federal guidelines, to open or contribute to an HSA, you cannot be covered by any plan except for:

- **Dental or vision coverage**
- **Long-term care coverage**
- **Accident/disability coverage**
- **Hospital Insurance (HIP)-type coverage/disease-specific coverage**

You can be covered by more than one HDHP and still be eligible to contribute to an HSA. For more information, visit [www.ustreas.gov/offices/public-affairs/hsa/](http://www.ustreas.gov/offices/public-affairs/hsa/) or speak to a qualified tax advisor.

### **Does the HDHP policy have to be in my name to open an HSA?**

No, the HDHP policy does not have to be in your name. As long as you have coverage under the HDHP policy, you can be eligible for an HSA assuming you meet the other eligibility requirements for contributing to an HSA. You can still be eligible for an HSA even if the policy is in your spouse's name.

### **If a married couple is enrolled on a family HDHP, can they open a joint HSA?**

No. HSAs are individual accounts. A husband and wife enrolled on a family HDHP can do the following:

- **Open individual HSAs and contribute to both, as long as the collective total of both does not exceed the family contribution maximum.**
- **Open an HSA in one spouse's name and contribute up to the family maximum.**
- **Use the funds in the HSA for any family member's qualified medical expenses. This is allowable even though HSAs are individual accounts. Also, your family members do not need to be on a qualified HDHP policy.**



## HSA eligibility requirements

---

### **I don't have a job. Can I have an HSA?**

Yes, if you have coverage under an HDHP. You do not have to have earned income from employment. Contributions can be from your own personal savings, dividends, unemployment or welfare benefits, etc.

### **Does my income affect whether I can have an HSA?**

There are no income limits that affect HSA eligibility. However, if you do not file a federal income tax return, you may not receive all the tax benefits that HSAs offer. HSA contributions, earnings and distributions for qualified medical expenses are not taxed.

### **Can I start an HSA for my child?**

No. You cannot establish separate accounts for your dependent children, including children who can legally be claimed as a dependent on your tax return. You can use your (or your spouse's) HSA funds to pay for your child's qualified medical expenses as long as your child is claimed as a dependent on your tax return.

### **I'm a single parent with HDHP coverage but have a child/relative that can be claimed as a dependent for tax purposes. This dependent also has non-HDHP coverage. Am I still eligible for an HSA?**

Yes, you are still eligible for an HSA. Your dependent's non-HDHP coverage does not affect your eligibility, even if they are also covered by your HDHP. You can use your HSA to pay for qualified medical expenses for both you and your child, even if your child is not covered by an HDHP. Keep in mind that the expense must be an actual out-of-pocket expense (not paid by health insurance) to be a qualified medical expense.

### **My employer offers an HRA. Can I have both HRA and an HSA?**

You can have both types of accounts, but only under certain circumstances. Most HRAs will probably make you ineligible for an HSA. If your employer offers a "limited purpose" (limited to dental, vision or preventive care) or "post-deductible" (pay for medical expenses after the plan deductible is met) HRA, then you are still eligible for an HSA.

Or, if your employer contributes to an HRA that can only be used after you retire, you are eligible for an HSA.

### **My spouse has an FSA or HRA through their employer. Can I have an HSA?**

You cannot contribute to an HSA if your spouse's flexible spending account (FSA) or HRA can pay for any of your medical expenses before your HDHP deductible is met.

### **Can I have an HSA if I'm covered under an FSA?**

Yes, but the FSA would have to be limited to vision, dental or preventive care.

## HSA contributions

---

### **Who may contribute to my HSA?**

Anyone can contribute to your HSA on your behalf, including your employer (if applicable) or your family. Cumulative contributions may not exceed the annual limit.

### **I'm being offered an HSA through my employer. Can we both make contributions to the HSA during the same calendar year?**

Yes, but contributions (including those made by you or those made on your behalf) may not exceed the annual limit.

### **Can COBRA participants contribute to an HSA?**

You can choose to contribute to your HSA as long as you are enrolled in an HDHP.

### **When can my contributions to an HSA be made?**

Contributions to your HSA can be made at any time during the year in any increment, including:

- **All at once at the beginning of the year**
- **All at once at the end of the year**
- **In equal amounts during the year**
- **In unequal amounts throughout the year**

Contributions to an HSA can be made through April 15th of the next year. For example, 2007's contributions can be made through April 15, 2008.

### **Can I make contributions if I am not enrolled in an HDHP for the entire year?**

Yes. The maximum amount that you can contribute to your HSA is prorated based on the number of months you are enrolled in an HDHP. For example, if you have HSA coverage under an HDHP that starts on June 1st and continues through December 31st, you are eligible to make 7/12 (approximately 58%) of the maximum annual contribution. However, for years after 2006, a special rule allows you to contribute the maximum amount for the year.

### **Can I contribute the maximum annual contribution if I'm not enrolled in an HDHP the entire year?**

Yes. For years after 2006, a special rule allows you to contribute the maximum amount for the year as long as you have coverage for December. If you fail to remain covered for the following calendar year, the extra contribution above the prorated amount is included in income and subject to an additional 10% tax. For example, if an individual was effective on an HDHP July 1, 2007, the individual could make the full \$2,850 maximum contribution for 2007. If the individual terminated April 30, 2008, he or she would have to pay taxes on \$1,425 (six months of the \$2,850 maximum contribution) plus an additional 10% tax penalty.

### **Can I roll over an IRA into an HSA?**

Yes, Effective January 1, 2007, you may make a one-time transfer from an IRA to an HSA. The amount of the transfer applies toward the HSA annual contribution maximum. If an individual electing the one-time transfer does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax. For example, if an individual is covered on an HDHP effective July 1, 2007 and transfers the IRA on September 1, 2007, an employee would need to remain on the HDHP until September 30, 2008 to avoid penalty.

### **I'm enrolled in Medicare. Can I contribute to an HSA?**

No, but if you have an existing HSA, you can use those funds for qualified medical expenses.

# Blue Options HSA

## HSA contributions

---

### **In what form must HSA contributions be made?**

All contributions to an HSA must be made in cash.

### **Can HSA funds be invested?**

Yes. You can invest the funds in your HSA. The same types of investments permitted for IRAs are allowed for HSAs, including stocks, bonds, mutual funds and certificates of deposit. Your investment options will depend on the offering from your HSA trustee or custodian.

### **If my spouse and I each have individual HDHP coverage, how much can we contribute?**

Each spouse is eligible to contribute to an HSA in their own name, up to the individual annual contribution limits.

### **If my spouse or I have family coverage, how is the contribution limit computed?**

If either spouse has family coverage under an HDHP, you both are treated as having family coverage. If each spouse has family coverage under separate health plans, your total contribution limit is the family annual contribution limit, divided equally between both of you unless you agree on a different division of funds.

### **I turned 55 this year. Can I make the full “catch-up” contribution?**

If you had HDHP coverage for the full year, you can make the full catch-up contribution regardless of when your 55th birthday falls during the year.

### **If my spouse and I are both 55 or older, can we each make the “catch-up” contributions?**

Yes, if both spouses are eligible individuals and both spouses have established an HSA in their name. If only one spouse has an HSA in their name, only that spouse can make a “catch-up” contribution.

### **What happens when HSA contributions exceed the maximum amount?**

Contributions made to your HSA that exceed the contribution limits are not tax-free. HSA contributions made by your employer that exceed the contribution limits are included in your gross income.

In addition, an excise tax of 6% for each taxable year is imposed on excess contributions. However, you can avoid the excise tax on excess contributions by withdrawing excess contributions before the last day prescribed by law (including extensions) for filing your federal income tax return for the taxable year.

# Blue Options HSA

## Using your HSA funds

---

### What can HSA funds be used to cover?

HSA distributions are tax-free if used for qualified medical expenses, as defined by Internal Revenue Code Section 213(d). Qualified medical expenses include doctor's office visits, pre-deductible amounts and coinsurance. Non-qualified distributions will be taxed as part of gross income and will also incur a 10% penalty. After age 65, the 10% penalty is dropped, though the distribution is still treated as taxable income.

### What are the IRS Section 213(d) allowable medical expenses?

**Note:** This is only a partial list and may be subject to change.

- **Adoption**
- **Alcoholism (amount paid for inpatient treatment, including meals and lodging, at a therapeutic center for alcohol addiction)**
- **Ambulance**
- **Artificial teeth**
- **Automobile modifications for physically disabled persons**
- **Birth control pills (if available only by physician prescription)**
- **Chiropractors**
- **Coinsurance amounts**
- **Contact lenses and related materials and equipment**
- **Crutches**
- **Dental treatment (but not cosmetic dentistry, e.g., veneers or teeth whitening)**
- **Diagnostic services**
- **Ear plugs (if prescribed by a physician for a specific medical condition e.g., ear tubes)**
- **Eye exam, eye glasses**
- **Fertility treatments (e.g., treatments, surgery, GIFT)**
- **Flu shots**
- **Fluoridation device (for fluoridation services; amount limited to cost allocable to current plan year)**
- **Guide dog or other animal aide (amount paid for purchase, training and care of animals used by a vision-impaired or hearing-impaired person)**
- **Hearing aids and batteries**
- **Hospital services (amount paid for inpatient care, including amounts paid for lodging and meals)**
- **Immunizations**
- **Insulin**
- **Laboratory fees**
- **Laser eye surgery**
- **Medical monitoring and testing devices (e.g., blood pressure monitor, syringes, glucose kit, etc.)**

# Blue Options HSA

Your plan for better health.™



## Using your HSA funds (continued)

- Medical records charges (e.g., fee associated with transferring medical records to new practitioner)
- Mileage to and from physician (cents paid per mile governed by IRS)
- Norplant insertion or removal
- Obstetrical expenses
- Occlusal guards to prevent teeth grinding
- Orthodontia
- Osteopath (fees only; medicines not eligible, prescribed or not)
- Over-the-counter medications (e.g., allergy or cold medications, pain relievers, such as aspirin or ibuprofen, and antacids)
- Ovulation monitor
- Oxygen
- Patterning exercises (amounts paid to an individual for giving patterning exercises to a mentally disabled child)
- Physical exams
- Prescription drugs
- Psychiatric care
- Psychoanalysis
- Psychologist
- Radial keratotomy
- Sterilization
- Sunglasses (prescription only)
- Student health fees
- Telephone for hearing-impaired (physician letter required)
- Transplants (amounts paid for surgical, hospital, laboratory and transportation expenses for organ donor)
- Vaccines
- Vasectomy
- Viagra (to the extent prescribed by a physician to treat a medical condition)
- Wheelchair
- X-ray fees

### These benefits are not eligible medical expenses:

- Archer medical savings accounts
- Athletic facilities
- De Minimis (minimal) benefits
- Educational assistance
- Employee discounts
- Lodging on your business premises
- Meals
- Moving expense reimbursements
- No-additional-cost services
- Scholarships and fellowships
- Transportation (commuting) benefits
- Tuition reduction
- Vitamins and dietary supplements
- Working condition benefits

This list is based on IRS Pub 502, available at [www.irs.gov](http://www.irs.gov).

### Are health insurance premiums qualified medical expenses?

Generally, health insurance premiums are not qualified medical expenses, except for the following:

- **COBRA health care continuation coverage**
- **Health care coverage while you are receiving unemployment compensation**
- **Qualified long-term care insurance**

In addition, if you are over age 65 you may use HSA funds to pay the following premiums:

- **Medicare Part A and/or B**
- **Medicare Part C and/or D**
- **Medicare Advantage**
- **Medicare HMO**
- **Premiums for employer-sponsored health insurance, or employer-sponsored retiree plan**

**Note:** Medicare Supplemental policies are not qualified medical expenses.

# Blue Options HSA

## Using your HSA funds (continued)

---

### **Can I use my HSA funds for retirement?**

Yes. After age 65 you may use your HSA funds for retirement expenses, such as cost of living expenses; however, the distribution is treated as taxable income. After age 65 the 10% penalty no longer applies.

### **If I am no longer enrolled in an HDHP, can I still use my HSA?**

Yes. You do not have to be enrolled in an HDHP to use your HSA. However, you can only make contributions to an HSA if you are enrolled in an HDHP.

### **I have an HSA through my employer. What happens to my HSA if I leave the company?**

The HSA account is yours. Your existing debit card will remain active for a short time to pay for eligible medical expenses. During that time you will need to contact your HSA administrator, so a new debit card may be issued. You can only contribute to the HSA if you are covered by another qualified HDHP.

### **Are claims incurred prior to the establishment of the HSA eligible for reimbursement from the HSA?**

No. Your HSA is established on the effective date of your Blue Options HSA policy. To officially activate your HSA, however, you must send in your signature card. If you delay, the IRS may infer you intended to open your account at a later date.

### **Can my HSA funds be used for denied medical claims?**

You may use your HSA funds for any eligible medical expense outlined in IRS Code, Section 213(d).

### **Whose qualified medical expenses can be reimbursed from my HSA?**

HSA funds can be used to cover qualified medical expenses for:

- **The account holder**
- **The account holder's spouse**
- **Any other eligible dependent**

The account holder's spouse or dependents do not need to be covered by the account holder's health plan, nor by another HDHP, in order for their qualified medical expenses to be reimbursed from the account holder's HSA.

### HSA tax benefits and required IRS reporting

#### What tax savings can I expect if I contribute to an HSA?

HSAs are exempt from taxes, if used properly. You will not pay taxes on HSA contributions or on distributions for qualified medical expenses. HSA earnings are also not taxed. The tables below are designed to illustrate the potential tax savings available by contributing to an HSA:

	EXAMPLE 1	EXAMPLE 2
HSA CONTRIBUTION	\$1,000.00	\$2,600.00
<b>TAX SAVINGS</b>	<b>\$406.50</b>	<b>\$1,056.90</b>
ASSUMPTIONS: FEDERAL TAX RATE = 28%, STATE TAX RATE = 5%, FICA = 7.65%		

INDIVIDUAL CONTRIBUTION	5 YEARS	10 YEARS	15 YEARS	20 YEARS
\$420 PER YEAR	\$2,366	\$5,244	\$8,746	\$13,007
\$840 PER YEAR	\$4,732	\$10,489	\$17,493	\$26,014
FAMILY CONTRIBUTION	5 YEARS	10 YEARS	15 YEARS	20 YEARS
\$1,350 PER YEAR	\$7,605	\$16,857	\$28,113	\$41,808
\$2,700 PER YEAR	\$15,209	\$33,713	\$56,226	\$83,617

# Blue Options HSA

Your plan for better health.™



## Tax benefits and IRS reporting (continued)

---

### **What is the tax treatment of my HSA contributions?**

Any contributions you make to your HSA (subject to the contribution limits) are tax-deductible regardless of whether you itemize deductions. However, you cannot also deduct the contributions as medical expense deductions under section 213(d). If you have an HSA through your employer, you cannot deduct any pre-tax contributions. Any employer contributions are exempt from payroll taxes. If you have additional questions regarding the tax treatment of HSAs, check with your tax advisor.

### **What is the tax treatment of HSA contributions made by a family member on my behalf?**

HSA contributions made by a family member on your behalf are tax-deductible by you when you are computing your adjusted gross income.

### **I have an HSA through my employer. What is the treatment of my employer's contributions?**

Contributions to an employee's HSA by an employer (provided they are within the limits) are treated as employer-provided coverage for medical expenses under an accident or health plan and are excludable from the employee's gross income. These contributions are not subject to withholding from wages from income tax or subject to the Federal Insurance Contributions Act (FICA), the Federal Unemployment Act (FUTA) or the Railroad Retirement Tax Act. Contributions to an employee's HSA through a cafeteria plan are treated as employer contributions.

### **What IRS reporting is required for an HSA?**

Any employer contributions to your HSA must be reported on your Form W-2. In addition, your HSA trustee or custodian will issue reports on HSA contributions and distributions.

### **What is the estate treatment of HSAs?**

If you are married, your spouse becomes the owner of the HSA when you die. If you are unmarried, the HSA becomes part of your taxable estate.

# Blue Options HSA

Our built-in HSA

Your plan for better health.<sup>SM</sup>



**Note:** If you are being offered Blue Options HSA through your employer, they may select the Mellon HSA Solution <sup>SM2</sup> as an option. **For individuals enrolled in Blue Options HSA directly with BCBSNC, it is automatically included.**

## Mellon HSA Solution

BCBSNC offers the Mellon HSA Solution.<sup>1</sup> With the Mellon HSA Solution, contributions are placed into an FDIC-insured checking account. Whenever the balance exceeds a specific amount, you may elect to invest contributions in a selection of Dreyfus mutual funds, subject to any minimum investment amount required by such funds. With the Mellon HSA Solution, you'll enjoy numerous advantages including:

- **One integrated application process**
- **Multiple HSA funding options**
- **Dedicated account service**
- **My HSA Account – online account management**
- **Debit card and checkbook – no claims to file!**
- **Contribution tracking and monthly statements**
- **Distribution of all required IRS reporting**

## Opening your HSA

If you (or your employer) select the Mellon HSA Solution, you will need to complete the following steps to start using and contributing to your HSA:

- 1) **Enroll in the Blue Options HSA high deductible health plan.**
- 2) **Elect the amount of money you wish to contribute for the year.**
- 3) **Receive and review your Mellon HSA Solution Welcome Kit materials.**
- 4) **Complete and return the required signature card.**
- 5) **Begin funding your HSA through automatic payroll deduction, electronic funds transfer or tax-deductible lump-sum deposit via check.**
- 6) **Receive and begin using your Mellon HSA checks or Mellon HSA debit card.**
- 7) **Review your investment options. A registered representative of Dreyfus Financial Corporation is available to assist you by phone.**

# Blue Options HSA

## Our built-in HSA (continued)

---

### Long-term investment growth

BCBSNC chose the Mellon HSA Solution because of its long-term investment options. The Mellon HSA Solution offers Dreyfus Mutual Fund options, providing the flexibility of long-term investment options that can greatly exceed those of other custodians.<sup>5</sup> *Fortune* magazine recently rated Mellon the #1 financial institution for quality, innovation and social responsibility.

### Debit card for HSA expenses

Your Mellon HSA debit card allows you to conveniently pay for eligible health care expenses. The card automatically pulls funds from your HSA by utilizing the card reader already used by providers today. When you use your HSA debit card, you eliminate the need to pay up front, and be reimbursed. For example, you may want to use the HSA debit card at the pharmacy when buying prescription drugs or qualified over-the-counter medications. You may also write the debit card number on bills that you receive from the doctor.

### Is there a cost for the debit card?

No. The debit card is included in the cost of setting up your account.

### Will I be assigned a Personal Identification Number (PIN) for my debit card?

Yes. A PIN will be assigned to you. It will be mailed separately from your debit card for security purposes.

### Is a signature required for debit card purchases?

Yes, if you use the debit card like a credit card. If it is used as a debit card, then only your PIN will be required.

### What happens if I use my debit card and do not have enough money in my HSA to cover the expense?

If you do not have enough funds to cover the charges, the entire transaction will be rejected. However, you may request that the card be charged the exact amount remaining in your HSA and pay the remaining balance be paid out-of-pocket.

### Can I use my debit card at an ATM?

No. You will receive a “transaction not authorized” message from the ATM. If you attempt to get cash back when using your debit card at a merchant, you will receive a “communication error” message.

### Does the debit card post to my account faster than checks?

Yes. The debit card has priority on HSA funds. The account processing order will be:

- 1) Deposits
- 2) Debits
- 3) Checks
- 4) Fees

# Blue Options HSA

Your plan for better health.™



## Our built-in HSA (continued)

---

### **My HSA Account - online account management**

We've made Blue Options HSA simple to use. Through the **My HSA Account** online tool, you can manage your health plan and your health fund in one place. You can review payment and claims history and more. You must activate your account with Mellon in order to have access to **My HSA Account**. You can access **My HSA Account** through the member home page on [bcbsnc.com](http://bcbsnc.com). You will need to login or register yourself, if you have not already done so, in order to access this resource.

- **View your health plan claims and benefits in one place**
- **View your HSA fund balances and transactions**
- **Link your HSA transactions to your health claims for tax reporting**
- **And much more!**

### **How can I access HSA fund account information if I do not have access to the Internet?**

You can review fund balance and transactions using your monthly account statements, or by calling Mellon directly at 1 (877) 484-5029, Monday – Friday, 8:00 a.m. to 8:00 p.m. EST, except holidays.

**Note:** It is a BCBSNC policy at this time that detailed claim information be disclosed only to the primary account holder (subscriber). In addition, the owner of the HSA account with Mellon is the subscriber, so HSA information can only be disclosed to the owner of the account.

### **Will I have access to My HSA Account if I have terminated my policy?**

You will have access to **My HSA Account** for six months after terminating your policy. After that, you will need to re-establish access to your HSA through Mellon.

### **I have the Mellon HSA Solutions as an individual. How will I make contributions to my HSA?**

You will need to make any HSA contributions directly to Mellon through bankdraft or a lump-sum deposit via check.

### **Is there support if I speak Spanish?**

Spanish-speaking employees may call Mellon directly to have their fund questions answered.

## What to expect

---

### What to expect at your provider's office or pharmacy

#### What should I do when I see a provider?

Your experience in the provider's office or hospital will be no different than it would be today, with the exception of what is collected from you at the time of service. Since HDHPs are "no copay" products, when you receive care from an in-network provider in an office setting, you will be responsible for the total allowed amount (the amount the provider has negotiated with BCBSNC), until you have met your deductible.

**We recommend that you do not use HSA funds until you receive your Explanation of Benefits (EOB).**

In certain situations, BCBSNC in-network providers (physicians, hospitals and specialists) may collect an estimated amount from you at the time of service. BCBSNC in-network providers may collect up to \$50 at the time of an office visit and up to \$500 for any other type of service such as when a member goes to the hospital, emergency room, outpatient facility or clinic.

The provider should inform you that this is an estimate. In addition, the provider should take the following steps prior to collecting an estimated amount at the time of service:

- 1) **Confirm the services received during the visit or hospital stay.**
- 2) **Calculate the estimated amount based on the negotiated rates or discounts agreed upon by BCBSNC and the provider (contracted amount).**
- 3) **Determine the status of your year-to-date deductible or coinsurance benefits.**

If you choose, you can use funds from your HSA to pay for these services. Or you can make a payment from a bank account or credit card to pay for these services you may reimburse yourself from the HSA. You should be aware of your obligations if funds are withdrawn for non-qualified medical expenses, or for expenses that you did not incur. In these instances, in order to avoid tax penalties you must return the excess withdrawals to your HSA using the process provided by your trustee or custodian prior to April 15 following the first year that you knew or should have known that the distribution was a mistake.

The final determination of what you owe will be based on the claim that is submitted to BCBSNC. You should check the EOB statement you will receive from BCBSNC to confirm the amount you owe.

#### What if my provider over-collects at the time of service?

You should contact your provider to determine how they plan to refund you. You will also need to make sure that, if you paid the provider directly from your HSA, that the funds are returned to the HSA to avoid tax penalties associated with using funds for non-qualified medical expenses. The funds must be returned prior to April 15 following the first year that you knew or should have known that the distribution was a mistake.

#### What will a provider collect if I am a BlueCard® member and not seeing a BCBSNC in-network provider?

This process will vary by provider outside of North Carolina. Each Blue Cross Blue Shield plan sets its own policies and contracts with providers in other states. Therefore, it is important for you to ask questions prior to scheduling an appointment or service with a provider as well as establish a payment plan with the provider.

# Blue Options HSA

Your plan for better health.™  

## What to expect (continued)

---

### **Should doctors ever call Mellon on my behalf?**

No. All financial transactions are handled between you and your doctor.

### **What happens when I go to a participating pharmacy?**

Present your BCBSNC ID card. The pharmacy will look up your eligibility and claim information. You will pay what you owe at the point of service. You are responsible for all drug costs (though you'll still receive BCBSNC's discounted amount) until you reach your deductible. After your deductible, you are responsible for any applicable coinsurance amounts.

## Additional information and resources

### **Where can I find additional information about HSAs?**

For more information about HSAs, visit these Web sites:

The HSA Insider  
[www.hsainsider.com](http://www.hsainsider.com)

HSA Decisions  
[www.hsadecisions.org/](http://www.hsadecisions.org/)

U.S. Treasury  
[www.ustreas.gov/offices/public-affairs/hsa/](http://www.ustreas.gov/offices/public-affairs/hsa/)



**BlueCross BlueShield  
of North Carolina**

Your plan for better health.<sup>SM1</sup> | [bcbsnc.com](http://bcbsnc.com)

## Blue OPTIONS HSA<sup>SM</sup>

- 1 BlueOptions HSA combines a high-deductible health plan and a health savings account (HSA). BCBSNC does not administer your HSA and is not affiliated with your HSA custodian or administrator. Your HSA custodian is Mellon Trust of New England, N.A.
- 2 Blue Cross and Blue Shield Association Internal Data, 2004
- 3 Referrals may be needed for mental health and substance abuse services.
- 4 A full list of qualified medical expenses can be found at [www.irs.gov](http://www.irs.gov).
- 5 Dreyfus is made available by Mellon. BCSNC is not affiliated with your investment fund. Prospectuses for the investments offered as part of the Mellon HSA Solution are available at [www.dreyfus.com](http://www.dreyfus.com). Investors should carefully consider the investment objectives, risks, charges and expenses of any Dreyfus fund before investing.

An independent licensee of the Blue Cross and Blue Shield Association. ®, SM Marks of the Blue Cross and Blue Shield Association. SM1 Mark of Blue Cross and Blue Shield of North Carolina. SM2 Mark of ACS Human Resources and Investor Solutions, Inc. U3359a, 8/07