



# BlueFund Playbook

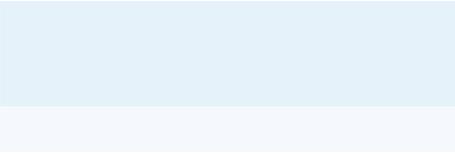
*An HSA Guide for Employers*



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# THE BASICS

IN A TIME when just meeting some of our everyday needs can put pressure on an already stretched personal budget, it's no surprise that individuals are becoming more educated consumers. Finding the best price is no longer limited to buying an automobile or a major household appliance. How employers and their employees shop for and use health care should be no different.

Now is the perfect time for employers and their employees to take a serious look at health consumerism and consumer-based health care plans.

CareFirst BlueCross BlueShield and CareFirst BlueChoice, Inc. (collectively, CareFirst) know that to be successful, both you and your employees must understand the value of such health plans, and how to make the most of them.

## What is CDH and why is it worth implementing?

CDH combines three components – health care coverage, a medical funding account, and decision support tools - that together assist the member in maintaining good health while gaining control of their health care costs.

### 1. Health Care Coverage

CDH plans are typically associated with a lower cost, higher deductible plan that offers a combined medical and prescription drug deductible. These plans traditionally encourage the use of preventive services by covering preventive care in full or for just the cost of a copay, rather than subjecting the member to meet their deductible first.

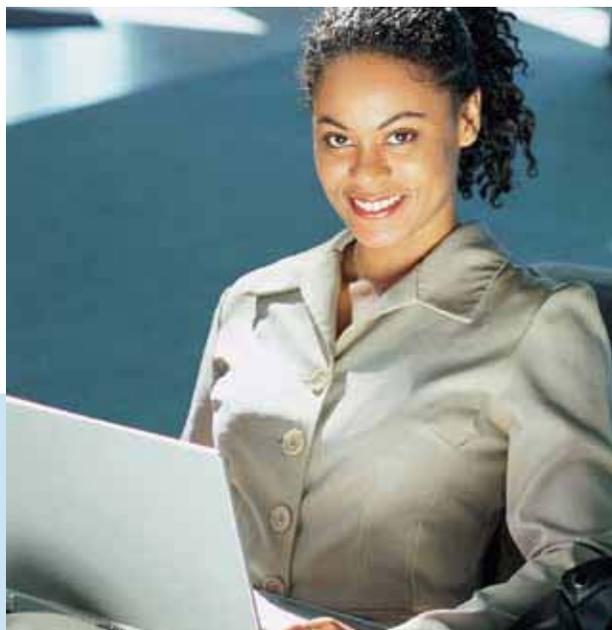
CareFirst's BlueFund Consumer Directed Health Plan program offers a wide variety of health plans from which to choose. These include:

- BluePreferred PPO
- BlueChoice HMO *Open Access*
- BlueChoice Opt-Out *Plus Open Access*
- BlueChoice Advantage
- HealthyBlue 2.0
- HealthyBlue Advantage

### 2. Medical Funding Account/ Health Savings Account

A Health Savings Account (HSA) is a tax-preferred individual bank account that is typically set-up by the employer on behalf of their employees—although in some cases, the employee may set-up his/her own account.

Once the HSA is opened and contributions are made, the account and all of its funds are 100% owned by the employee. This account, which typically consists of a combination of employer and employee funding, can be used for a wide range of qualified health expenses, which go beyond those benefits offered through traditional health care coverage.



In addition to funding the out-of-pocket costs of the plan deductible, copays and coinsurance, an HSA can also be used for other out-of-pocket costs, such as over-the-counter drugs, vision care, dental care, etc. Members can access their HSA funds by using either a debit card or checks. Also, money that remains in an HSA account can be saved and invested in investment offerings made available by the HSA custodian or bank.

The HSA offers employees unique tax benefits. It is possible to never pay taxes on money contributed to an HSA – not even when it is eventually spent, as long as the funds are used for qualified health expenses.

Employees are not taxed:

- For contributions to the account.
- On interest earned or earnings on investments.
- On money used for qualified health expenses.

And don't forget, an employee's pre-tax HSA contributions reduce the employer's FICA and unemployment taxes.

### 3. Decision Support Tools

There are a growing number of online tools to help employers and employees manage their health care and health care dollars. Aside from the menu of tools available through [www.carefirst.com/cdhtools](http://www.carefirst.com/cdhtools), CareFirst also offers employers the ability to customize educational materials to ensure a successful implementation.

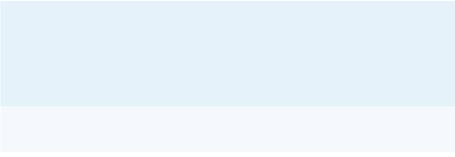


## Why BlueFund HSA?

CareFirst’s BlueFund Consumer Directed Health Plans aim to change how employees view their health insurance. Members are encouraged to be more responsible for their overall health and their health care. In a time when employers are forced to “buy down,” BlueFund plans can help employees make the most of their benefits.

### BlueFund is designed to:

- Help control health care and health insurance costs.
- Provide employees with the protection of comprehensive health coverage, while allowing some level of transparency with regard to the true cost of health care.
- Give employees more control over health care spending.
- Help employees make more informed health care decisions.
- Encourage employees to adopt healthy lifestyles.



# THE PLAYERS

CAREFIRST BLUECROSS BLUESHIELD is an independent licensee of the Blue Cross and Blue Shield Association and a not-for-profit health care company. Through its affiliates and subsidiaries, CareFirst offers a comprehensive portfolio of health insurance products and administrative services to more than 3.2 million members in Maryland, the District of Columbia, and Northern Virginia.

- Launched its first CDH plans with HRA in 2004.
- Expanded the BlueFund line of products to include Health Savings Account (HSA) options with combined medical and prescription drug coverage.
- Today, CareFirst has nearly 300,000 members enrolled in BlueFund CDH plans.
- Dedicated BlueFund CDH Member Service Consultants help employees understand their BlueFund Plans.

CareFirst’s BlueFund Administrator, PayFlex, manages the financial aspects of the BlueFund Program for CareFirst. Their primary roles include:

- Assisting CareFirst customer service representatives with specific funding questions.
- Providing custom CareFirst HSA debit cards.
- Working directly with the employer to set-up and manage HSA administration, and providing reports relevant to program management.
- Working directly with the Bank of New York Mellon to ensure that each member HSA is set-up correctly.

## The Bank of New York Mellon

The Bank of New York Mellon (BNYM) is a global financial services company focused on helping clients manage their financial assets. BNYM leads the nation with the largest number of Health Savings Accounts of any custodian, with over 638,000 accounts totaling more than \$486 million in HSA assets.

As the HSA custodian, BNYM offers a variety of investment options for employees to consider once their HSA has a certain amount of funds available. To learn more about these investments, be sure to read the Bank Information section of the HSA Playbook.

## The Employer

Employers play a pivotal role in the success of BlueFund plans. Their involvement in learning about the value of BlueFund, being an advocate for the program throughout the benefit year and embracing employee education efforts are essential to implementing a winning HSA strategy.

But don’t forget, CareFirst provides a wealth of tools to educate employees, so be sure to take advantage of CareFirst’s online resources and materials for additional help.

## Employees

For a BlueFund HSA program to be successful, employees must be encouraged to select the plan. Employers need to help their employees understand the benefits of an HSA, motivate them to enroll in the HSA-qualified health plan, and most importantly, get their employees to establish and fund their HSA. Don’t forget, CareFirst can provide communication tools to accomplish these goals and keep it simple!



## Where to Begin: How to Set-Up your BlueFund Plan

It's easy for an employer to set-up a BlueFund HSA plan.

### 1. Carefirst Notifies Payflex

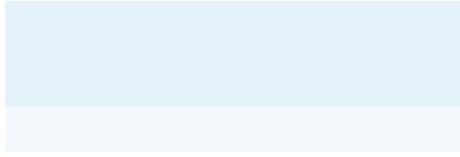
- When an employer selects a CareFirst BlueFund HSA Plan, CareFirst automatically transmits the group set-up and contact information electronically to PayFlex. There is no paperwork to complete.
- PayFlex will immediately set-up the account in the PayFlex system.
- PayFlex will contact the employer to discuss details of the funding arrangements to complete the group set-up.

### 2. Health Plan Enrollment Forms

- All employees must complete this form in order to enroll in a BlueFund plan.
- Once submitted (through the normal installation process with CareFirst), PayFlex will contact the employer and provide:
  - › Employer Implementation Guide.
  - › Employer Handbook, including web portal instructions, user name and password. The PayFlex employer portal allows employer access to contribution information and important reporting content.



- At the time this information is received, employers can begin contributions and funding. Employers may also contact PayFlex at anytime to discuss funding arrangements.
- Please note that in about 10 days after enrollment is provided to CareFirst, employees will receive a Welcome Kit from The Bank of New York Mellon. The Welcome Kit will direct them on how to activate their HSA and begin using their account. They will also receive a debit card in a separate mailing.



# THE RULE BOOK

UNDERSTANDING THE RULES can help employers more clearly communicate the value of your BlueFund HSA. Continuous communication and education to employees will ensure success in the plan.

# Rules for the Employer to Know



## Contributions and Spending Options

- Together employers and employees can contribute on a pre-tax basis, up to the legal amount, into an HSA each year.
  - › Please remember, that HSA funds are 100% owned by the employee once deposited into their account.
- Total contributions to an account cannot exceed the following:
  - › Individual: \$3,100 for 2012 / \$3,250 for 2013.
  - › Family: \$6,250 for 2012 / \$6,450 for 2013.
  - › Employees 55 or over can contribute an additional \$1,000 per year.
- Funds are portable.
  - › If the employee leaves, they take the HSA and all contributed funds with them.
- All employer contributions can be provided up front in the beginning of the plan year or spread out over various periods (monthly, quarterly, with each pay period, etc.).
- Employer contributions are excluded from an employee's gross income.
- Employee contributions on a pre-tax basis decrease their overall taxable income.
- HSA funds can be used for Qualified Health Care Expenses as noted by the IRS (Section 213(d) of the internal revenue code).

- Contributions are not restricted to be spent only on insurance deductibles, copays and coinsurance.
- Employees can choose not to spend HSA funds and invest in the wide variety of BNYM investment options.

## Eligibility

- Employee must be enrolled in a qualified High Deductible Health Plan (HDHP) to open and contribute to an HSA.
- Employees cannot open or contribute to an HSA if they are:
  - › Enrolled in Medicare.
  - › Covered by another health plan that is NOT a qualified HDHP.
  - › Claimed as a dependent on another person's taxes.
- The individuals listed on the next page are eligible to open an HSA, but pre-tax employer contributions are not allowed.
  - › Contributions must be made post-tax but are still deductible as above-the-line deductions on tax returns.
- Partnership Owners and their spouses of S-Corp, LLC, LLP businesses.
- Sole-Proprietors.
- The IRS does not recognize Domestic Partners, so although the partner may have health care coverage with CareFirst, the HSA account holder cannot use HSA funds for that domestic partner.

- Eligible Spouse and Dependent(s) of a Non-Eligible Employee may open an HSA, however, CareFirst's arrangement with PayFlex do not accommodate spouse/dependent ONLY funding. The EMPLOYEE must be eligible to fund the HSA in order to set-up an account.
- HSA funds can be used on dependents even if the dependent is not enrolled in the health insurance plan.
- For employers with a Section 125 plan (cafeteria plan), contributions must meet non-discrimination rules.
  - These rules require the employer to ensure that contributions do not favor higher compensated employees.
- For employers without a Section 125 plan, employer contributions must be "comparable" that is they must be in the same dollar amount, or same percentage of the employee's deductible, for all employees in the same class.
  - Employers can vary contribution levels for full-time vs. part-time employees, and employees with self-only coverage vs. family coverage.
- Employers may tie incentive programs in with contributions to the HSA; however, the employer group must have a Section 125 plan to do so.
  - For example, if the Health Risk Assessment tool offered through the Health+Wellness program is filled out by a member, the employer can enable more contributions to those participants.
- Mid-Year Rules: If an employee joins the plan mid-way through the calendar year, they may contribute up to the full pre-tax HSA contribution for the year.
  - There are tax implications if an employee does not remain enrolled in HDHP through the end of the following calendar year.

- For example, if an employee joins in June of 2012 and wants to contribute the full amount to their HSA, they must remain in the health plan through 12/31/2013.

## COBRA

- An employer's contribution to an HSA is not considered part of a group health plan; therefore, the employer is not required to make COBRA continuation coverage available.
- However, employees can use their HSA to pay for COBRA premiums once they leave an employer.
- In addition, if an employer contributes a lump sum to the HSA for every employee on the first of the year and an employee terminates before the end of the year, it is not the employer's responsibility to calculate the excess and report it as taxable income. The employee is responsible.
  - However, if the employee maintains HDHP plan coverage under another plan for the rest of the year, either through COBRA continuation coverage or another plan, the employee will not need to report the funds as taxable income.

## HSA and FSA

- Employers may offer both FSA and HSA together; however, the FSA must be a Limited Purpose FSA.
  - Employee must limit FSA to cover only preventive care, dental and vision expenses.
- Employee cannot establish or contribute to an HSA if their spouse has an FSA or HRA through an employer that can pay for any medical expenses before the HDHP deductible is met.

# Rules for the Employee to Know



## Eligibility

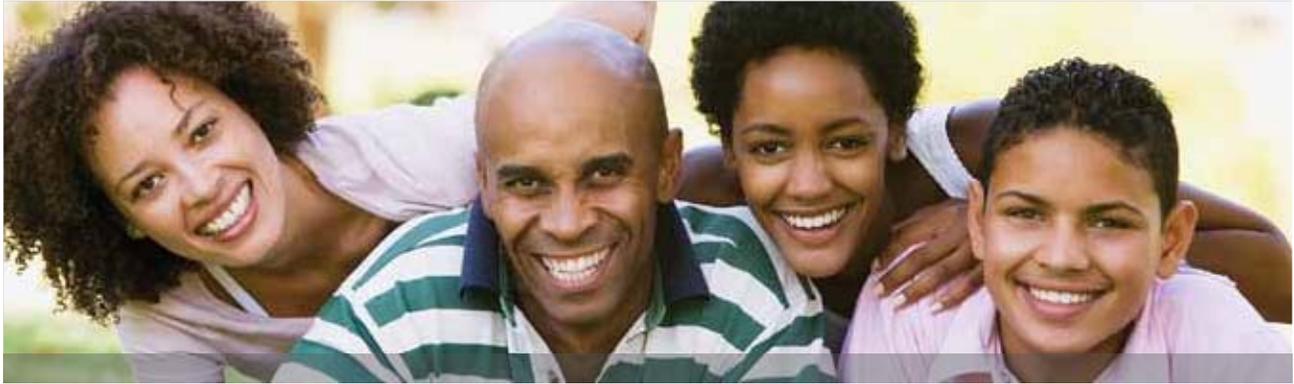
- Employees must be enrolled in a qualified High Deductible Health Plan in order to open and contribute to an HSA.
- Employees cannot open or contribute to an HSA if they are:
  - › Enrolled in Medicare.
  - › Covered by another health plan that is NOT a qualified HDHP.
  - › Claimed as a dependent on another person's taxes.

## High Deductible Health Plans

- These health plans are developed using guidelines set by the Federal Government.
- They are typically lower cost plans with a high deductible that must apply to both the medical and prescription drug coverage.
- Coverage levels such as minimum deductible amount and maximum out-of-pocket expenses, as well as certain benefit rules, are specified by the IRS.
- In addition, these plans encourage the use of preventive services. Typically preventive services are not subject to the deductible and may be covered in full or only require a small copay.

## HSA

- An HSA is a tax-preferred individual bank account set-up by the employer for their employees.
- Once the HSA is opened and contributions are made, the account and any money in it is 100% employee-owned.
- In addition, this account, which typically consists of a combination of employer and employee funding, can be used for a wide variety of qualified health expenses.
- These expenses go beyond health care coverage with CareFirst and can be very beneficial to those spending money on other necessary health care expenses such as over-the-counter drugs, eye care, etc.
- Members can access HSA funds by using a debit card or checks.
- HSA funds can be saved and invested in investment offerings arranged by the HSA custodian or bank.
- The HSA offers employees unique tax benefits.
  - › It is possible to never pay taxes on money that is contributed to an HSA, not even when it is eventually spent, as long as the funds are used for qualified health expenses.



- Employees are not:
  - › Taxed for contributions to the account.
  - › Taxed on interest earned or earning on investments.
  - › Taxed if money is used for qualified health expenses.

## HSA Fund Usage

- Together employers and employees can contribute on a pre-tax basis, up to the legal amount into an HSA each year.
  - › Please remember that HSA funds are 100% owned by the employee once deposited into the account.
  - › Employees must be able to verify to the IRS (if audited) that all HSA distributions reported on their taxes were qualified health expenses.
  - › Employees may not use funds from their HSA for a domestic partner, even if he/she is enrolled in health care coverage through CareFirst.
  - › Employees may use HSA funds for dependents not enrolled in health care coverage.

## COBRA

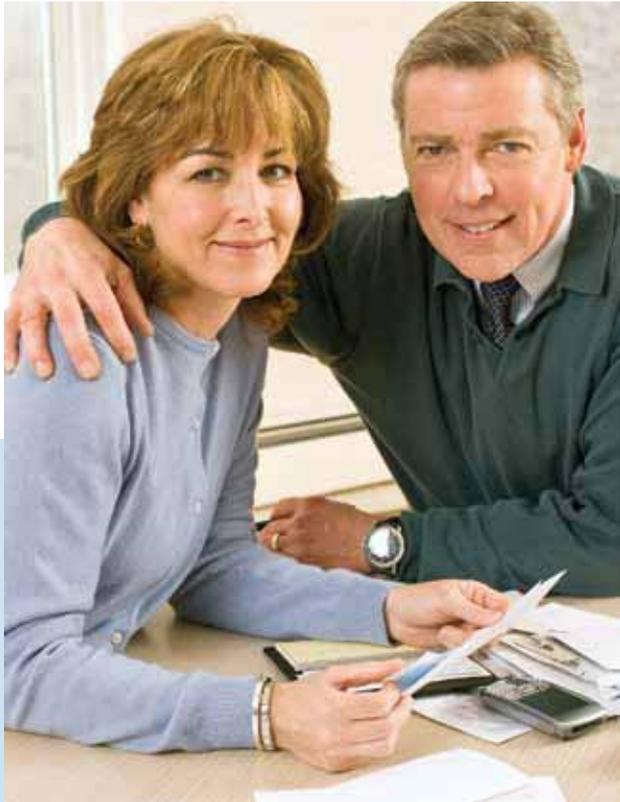
- Employees can use their HSA to pay for COBRA premiums once they leave an employer.
- In addition, if an employer contributes a lump sum to the HSA for every employee on the first of the year and an employee terminates before the end of the year, it is the employee's responsibility to calculate the excess and report it as taxable income.
  - › If the employee maintains HDHP plan coverage under another plan for the rest of the year, either through COBRA continuation coverage or another plan, the employee will not need to report the funds as taxable income.

## HSA and FSA

- Employees may only enroll in a Limited Purpose FSA that limits FSA reimbursement to preventive care, dental and vision expenses.
- Employee cannot have an HSA if their spouse has an FSA or HRA through an employer that can pay for any medical expenses before the HDHP deductible is met.

# Bank Information

Through our arrangement with the Bank of New York Mellon, there are investment services available once an employee's balance reaches \$1,500. Before investments are made, it is important to remember that an HSA is a bank account and some fees apply. Below is a list of some common fees and charges.



## Bank of New York Mellon Corporation:

Interest Rate, Set-Up and Monthly Fee  
(Rates as of February 2009)

Interest Rate	0.35%
Annual Percentage Yield (APY)	0.351%

**There are no Account Set-Up Fees or Monthly Service Charges while the member is actively employed and enrolled in a qualified high deductible health plan with CareFirst BlueFund.**

Account Set-Up Fee	Covered by CareFirst
Monthly Service Charge	Covered by CareFirst

If the account holder drops CareFirst BlueFund coverage and maintains their HSA, he/she would become responsible for the monthly service charge of \$3.90 if the average monthly balance is \$1,000 or less.

If applicable, members will be responsible for these fees which are deducted from their HSA.

Replacement / Additional Debit Card	\$5.00
Checkbook Reorder Fee	\$5.00
Copy of Check, Statement or Other Document (per item)	\$5.00
Stop Payment (per request)	\$25.00
Returned Item (per instance)	\$25.00
Custodian Check Issuance Fee (deducted from account)	\$25.00
Excess Contribution Reimbursement (deducted from account)	\$25.00
Attachments/Levies/Legal Requests/ Subpoenas (per request)	\$75.00
Statement Reconciliation/ Account Research	\$20 per hr/\$10 min

## The Bank of New York Mellon Corporation

### Investment Information (Effective October 2008)

The Bank of New York Mellon provides the BlueFund HSA program with an integrated investment platform that allows account holders the opportunity to easily invest and grow their HSA funds. Some features of the plan include:

- 20 investment options with a wide variety of fund families.
- Initial investment minimum as little as \$1, once the HSA balance reaches \$1,500.
- Automatic transfer of HSA dollars into, out of, or within a selection of mutual funds with the schedule set by the employee.
- Ability to add additional investments online, at any time.
- Comprehensive tools to help select investments and expand investment knowledge.

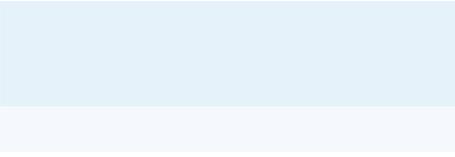
Before funds may be invested, they must first be deposited and credited to the account holder's HSA. No minimum balance is required to open and maintain the HSA checking account. Once the HSA balance reaches \$1,500, employees can set-up an Investment Account and diversify the accumulated HSA savings into a wide selection of mutual funds. They will be able to transfer funds back and forth between the HSA and the Investment Account online at any time! Remember that no federal taxes are paid on any interest and/or investment earnings as long as the money remains in the investment plan or HSA and is used to pay for qualified health care expenses. Please note that investments are not insured by the FDIC and, as an investor, employees may lose money if dictated by the market.

### Investment Options

Please note there is a \$2.90 per month fee to use the investment platform. This fee will be automatically deducted from the employee's investment account on the 5th of each month. If the employee does not have an investment account, there is no charge.



Fund Category	Investment Options	Ticker
Money Market	FIRST AMERICAN PRIME OBLIGS CLASS A	FIVXX
Intermediate-Term Bond	CALVERT INCOME FUND CLASS A	CFICX
Short-Term Bond	CALVERT SHORT DURATION INC CLASS A	CSDAX
High Yield Bond	FIDELITY ADV HIGH INC ADVANTAGE CLASS T	FAHYX
Short Government	GOLDMAN SACHS SHORT DURATION GOVT CL A	GSSDX
World Bond	TEMPLETON GLOBAL BOND CLASS A	TPINX
Mid-Cap Growth	AMERICAN CENTURY HERITAGE CLASS A	ATHAX
Large Blend	DREYFUS APPRECIATION FUND	DGAGX
Large Blend Index	VANGUARD TOTAL STOCK MARKET INDEX	VTSMX
Large Value	DREYFUS PREMIER STRATEGIC VALUE CLASS A	DAGVX
Diversified Emerging Markets	FIDELITY ADVISOR EMERGING MKTS CLASS A	FAMKX
Mid-Cap Blend	GABELLI ASSET FUND CLASS AAA	GABAX
Large Growth	MFS AGGRESSIVE GWTH ALLOCATION CLASS A	MAAGX
Foreign Large Growth	MARSICO INTERNAT'L OPPORTUNITIES	MIOFX
Foreign Large Blend	MFS RESEARCH INTL CLASS A	MRSAX
Small Growth	FIDELITY ADVISOR SMALL CAP CLASS A	FSCDX
Small Blend	KEELEY SMALL CAP VALUE FUND	KSCVX
Small Blend Index	VANGUARD SMALL CAP INDEX	NAESX
World Stock	MUTUAL SERIES MUTUAL DISCOVERY CLASS A	TEDIX
Moderate Allocation	AMERICAN CENTURY STRAT ALLOC CLASS A	ACVAX
World Allocation	IVY ASSET STRATEGY CLASS A	WASAX
Real Estate	T ROWE PRICE REAL ESTATE FUND ADV CL	PAREX



# THE LOCKER ROOM

YOUR EMPLOYEES CAN ACHIEVE the maximum benefits of their BlueFund plan when they understand its benefits and how it works most effectively. As an employer, you may have some reservations about choosing a new plan for your employees. We understand. CDH plans are not yet familiar to everyone, and the idea of a higher deductible plan may be unsettling.

CareFirst provides employees with information and decision support tools to show how their health plan can actually save them money. We also provide employer communication tools to help you and your employees make the transition to a consumer directed health care plan.

# Communication and Decision Support Tools



## Communication Support:

- Early teaser communications
- Email copy
- Information for newsletters, mailings and/or your company's Intranet
- Open enrollment materials
- Open enrollment presentations

## Video tutorials for employees on:

- Insurance Basics
- Consumer Directed Health Care
- High Deductible Health Plans
- Health Savings Accounts

## Coverage Advisor from WebMD

- Coverage Advisor is a quick, easy, private and secure tool that helps employees:
  - › Compare their estimated out-of-pocket expense between the offered health plans so they can choose the medical plan that's right for them.
  - › Create customized family health profiles for all family members.

- › Estimate their annual health care costs.
- › See which plan will help them save the most money for future health care needs and offer the greatest tax savings.
- › Model the impact of HSA Contributions.
- Tool can be customized upon request for large groups.

## Health + Wellness

- Health and wellness program that integrates Prevention, Utilization Management, Disease Management and Case Management.
- Provides your employees with resources to make intelligent health care decisions.
- Starts with an online Health Risk Assessment tool.
- More information is available in the Health + Wellness Playbook.

## Hospital Comparison Tool from WebMD

- Side-by-side hospital comparisons for specific conditions that are based on crucial evidence-based measures such as patient volume, mortality rates and unfavorable outcomes.

### My Care First

- My Care First is our online health and wellness resource center that contains:
  - Multimedia health and wellness information with over 500 health and wellness videos, animations and podcasts.
  - Extensive Medical Library for information on diseases and conditions.
  - Self Care Centers.
    - Call to Action which provides actions members can take to manage weight and reduce stress, plus helpful information in areas such as being a new parent, and much more.
    - Preventive Service Guidelines.
  - Interactive health tools, such as:
    - Calculators, diaries, quizzes, polls, nutritional toolbox.
    - Health Risk Assessments.
    - Disease Management information.

### Prescription Drug Decision Support Tools

- *My Drug Cabinet* can house a current list of all prescriptions purchased by the employee with drug interaction checking.
- Drug Pricing Tool which provides real time costs of filling a prescription including side-by-side pharmacy comparisons.
- Therapeutic Alternatives to encourage employees to consider appropriate less expensive drug options.
- Pharmacy locator.
- Formulary information including which drugs require prior authorization.
- FAQs.

### Treatment Cost Estimator

- Treatment Cost Estimator provides a historical range of costs based on data from BCBS plans for a wide variety of procedures.
- Data is based on an Episode of Care that includes all services rendered during the treatment of a disease or condition, from diagnosis through treatment, including pharmacy costs.

### Options program

- Discounts on wellness services, such as fitness memberships.



## The Stats

As of 1/1/2008, there were 6.1 million employees enrolled in HSA plans and another 5.9 million employees enrolled in HRA plans nationwide. This was up 35% over 1/1/2007 (Source: AHIP, April 2008).

- 19% of all employers will offer a CDH plan in 2009 (Source: Mercer LLC, September 4, 2008). By 2012, it is estimated that nearly 35% of the health insurance market will be enrolled in consumer-based plans (Source: 2007 Forrester Research).
- Nearly all of the employer respondents — 90% — cited employee communication as their greatest challenge in introducing the consumer directed health plan (CDHP) and during the plan's first year (Watson Wyatt, CDHP Implementation Experience with Large Employers, August 2008).
- Consumers in CDHPs are more likely to engage in wellness programs than non-CDHP consumers: smoking cessation: 20% vs. 6%; stress management: 22% vs. 8%; nutrition and diet programs: 27% vs. 12% (2007 BSBSA Consumer Directed Health Plans Member Experience Survey).
- CDHPs increase consumer awareness of cost and value.



### Consumers are:

- › 20% more likely to comply with treatment for chronic conditions.
- › 25% more likely to engage in healthy behaviors.
- › 30% more likely to get annual physicals.
- › 50% more likely to seek less expensive care.

(Source: McKinsey & Company, "Consumer Directed Health Plan Report-Early Evidence is Promising," June 2005.)

# Frequently Asked Questions

## How does an HSA work?

An HSA works in conjunction with a High Deductible Health Plan. All allowable contributions made to an HSA account are 100% tax-deductible.

- HSA contributions can be used to pay for out-of-pocket medical expenses.
- Funds can also be used to pay for medical expenses not covered under the health plan.
- An account holder may also choose to pay for medical and prescription expenses out-of-pocket and allow the HSA account to grow for future use on a tax-free basis when spent on qualified health expenses.

## What are some advantages of an HSA?

In addition to the tax savings, HSAs can help members save for future health care expenses. The money deposited in HSAs can be used for:

- Services not covered by a future health plan.
- Medical expenses during periods of unemployment.
- Medical coverage during retirement.
- Insurance coverage after Medicare entitlement (except Medigap).
- Out-of-pocket expenses for Medicare including premiums.
- Qualified long-term care expenses.

## How does a member use an HSA to pay for health insurance expenses?

As is typical when receiving medical care, the provider submits a claim to CareFirst. The provider will be notified of the subscriber liability, at which point they will bill the member.

Some providers, however, may request payment at the time of service, when the expense isn't covered by the member's plan or if the member is in the deductible period. The process is similar at the

pharmacy; however, your pharmacist typically will know the exact charge at the time of service.

The member can pay using their HSA debit card or HSA check to access funds directly. The member can also use a personal check, cash, or credit card at the point of sale and then reimburse themselves using an HSA check.

## Do all expenses paid from an HSA apply to my annual deductible?

No. The only items applied to the deductible are covered services under the Medical and Prescription Drug Program. While HSA funds are available for many eligible expenses, some of these expenses may not apply to the deductible. For example, other qualified medical expenses (see sample list of expenses in this brochure or access Publication 502 found on the IRS web site) may not be part of health care coverage with CareFirst.

## Are there any penalties?

Health Savings Accounts were developed to mitigate the increasing cost of health care, while providing an opportunity to save for future expenses. Therefore, HSA funds used for expenses that are not qualified medical expenses will be subject to ordinary income tax, and, possibly, a 10% penalty. Members should consult with a tax advisor for further guidance.

## What happens when an employee is terminated or leaves my company?

Once an Health Savings Account is established, the funds in the plan solely belong to the employee. However, if employment is terminated or the member becomes ineligible for medical coverage through their current employer, the account holder will need to request a new debit card from the bank as the current card will be inactivated. In addition, the monthly fees will then be the responsibility of the account holder.

**I contribute to my employee’s HSA. Can I control how they spend their HSA funds?**

No, you do not own your employees’ Health Savings Account. The employee fully owns the contributions to the account as soon as they are deposited.

**My employees want to contribute to their HSA but want to make sure they get a tax benefit out of doing so. How does that work?**

Employee contributions can be made to HSAs on either an after-tax or pre-tax basis. If made on an after-tax basis they may be counted as an above-the-line deduction on their tax return. If they want to make the contribution pre-tax, it can be done through a Section 125 (cafeteria plan). To encourage participation, it is highly recommended that the employer enable the employee to make regular pre-tax contributions to the HSA via payroll deductions during each pay period.

**Am I required to contribute to my employee’s HSA? If so, how much?**

As an employer, you may contribute as much or as little as you want; however, the contributions must

be comparable for all employees. Please remember that total combined contributions must stay within the legal limit for annual account contributions. Research shows that plans are more successful when employers make contributions to their employees’ HSAs.

**Do HSA contributions have to be made in equal amounts each month?**

No, you can contribute in a lump sum or in any amount or frequency you wish. However, keep in mind that the funds belong to the employee after they are deposited.

**Do I have to contribute the same amount to every employee’s HSA?**

Employer contributions must be “comparable,” that is they must be in the same dollar amount or same percentage of the employee’s deductible for all employees in the same class. You can vary the level of contributions for full-time vs. part-time employees, and employees with self-only coverage vs. family coverage. (If your company has a Section 125 Plan, see next question.)





**Our company offers benefits through a Section 125 plan. Do contributions have to be comparable under these plans as well?**

Section 125 plans (cafeteria plans) must meet a different set of rules. Under these plans, contributions (both from employer and/or employee) must meet non-discrimination rules. These rules require the employer to ensure that contributions do not favor higher compensated employees.

**If I am a Partnership/Owner of an S-Corp, LLC or LLP business or a Sole-Proprietor, can I contribute to an HSA?**

Yes, but on a post-tax basis only. Your contributions cannot be made on a pre-tax basis.

# IRS Approved Expenses

HSA funds can be used for many services, including services not covered by your CareFirst health plan. There is a government issued list of qualified expenses for which HSA funds may be used. Here is a partial list. The complete list can be found on the IRS web site ([www.irs.gov](http://www.irs.gov)) by searching for Publication 502.



## Eligible HSA Expenses

There are hundreds of eligible expenses for HSA funds, including prescriptions, over-the-counter medications, doctor office copays, health insurance deductibles, and coinsurance. HSA funds may even be used for eligible expenses for your spouse or tax dependents.

- |  |                                     |  |
|--|-------------------------------------|--|
| Acupuncture  | Dentures                            | Medical testing device                 |
| Alcoholism treatment   | Diagnostic services                 | Nursing services                       |
| Ambulance  | Drug addiction treatment            | Obstetrical expenses                   |
| Artificial limb  | Eye examination                     | Organ transplant                       |
| Automobile modifications for a physically handicapped person           | Eye glasses & related materials     | Orthodontia (not for cosmetic reasons) |
| Birth control pills  | Fertility treatment                 | Over-the-counter medications           |
| Blood pressure monitoring device                                       | Flu shot                            | Oxygen                                 |
| Braille books & magazines (above the cost of regular printed material) | Guide dog or other animal aide      | Physical exam                          |
| Chiropractic care  | Hearing aids                        | Physical therapy                       |
| Christian Science practitioner   | Hospital services                   | Prescription drugs                     |
| COBRA premiums   | Immunization                        | Psychiatric care                       |
| Contact lenses & related materials                                     | Insulin                             | Retiree medical insurance premiums     |
| Crutches   | Laboratory fees                     | Smoking cessation program              |
| Dental treatment   | Laser eye surgery                   | Surgery                                |
|  | Long-term care premiums or expenses | Transportation for medical care        |
|  |                                     | Weight loss program to treat obesity   |
|  |                                     | Wheelchair                             |

## Ineligible HSA Expenses

These items are never eligible for tax-free purchase with HSA funds.

- |                    |                  |                                   |                   |
|--------------------|------------------|-----------------------------------|-------------------|
| Cosmetic surgery   | Funeral expenses | Illegal operations and treatments | Maternity clothes |
| Exercise equipment | Hair transplants | Insurance premiums                | Teeth whitening   |
| Fitness programs   | Household help   |                                   |                   |



## What's Eligible and Ineligible

### Eligible Over-the-Counter HSA Expenses

Your HSA can also be used for some over-the-counter (OTC) items. The OTC items covered include many medical devices and other non-medicinal health care products. Examples include:

- Acne creams
- Anesthetic mouth gels and rinses
- Anti-itch creams
- Antiseptics
- Bandages and dressings
- Contact lens solutions
- Crutches
- Eye drops
- Eye patches
- Insulin
- Prenatal vitamins
- Reading glasses
- Smoking cessation products
- Sunburn creams/sun block
- Wart and corn removers

### Eligible Only with Prescription\*

- Allergy prevention/treatments
- Antacids and acid reducers
- Cold and flu medicines
- Decongestants
- Oral pain relievers
- Orthopedic shoe inserts
- Pain and fever relievers
- Sinus medications
- Snoring cessation aids
- Vitamins, herbal and fiber supplements
- Weight loss and dietary supplements

*\*A "prescription" means a written or electronic order for a medicine or drug that meets the legal requirements of a prescription in the state in which the medical expense is incurred and that is issued by an individual who is legally authorized to issue a prescription in that state.*

### Ineligible Over-the-Counter Expenses

These items are never eligible for tax-free purchase with HSA funds.

- Cosmetics
- Denture supplies
- Deodorant
- Moisturizers and wrinkle creams
- Sun tan lotions
- Toothpaste, toothbrushes and mouth wash
- Tooth whitening products
- Vitamins taken to improve overall health

# BlueFund HRA vs. BlueFund HSA

Still not sure what type of BlueFund Plan to choose? Consider the following:

Features	BlueFund HRA	BlueFund HSA
<b>Funding</b>	Exclusively employer funded.	Employer and employee can contribute funds.
<b>Control</b>	Employer has much greater control over health plan design and HRA allowable expenses.	Employer and employee contributed funds are portable and 100% controlled by member.
<b>Payment Options</b>	<p>Employers do not reimburse until claim is actually incurred.</p> <p>Claims rollover is available from CareFirst to PayFlex to reimburse members or group can use debit card option.</p> <p>If a debit card is not chosen, the subscriber is reimbursed for medical or Rx claims directly via check or direct deposit.</p>	<p>Members can use a debit card or checks to pay for HSA eligible expenses or the subscriber can submit a form for reimbursement.</p> <p>Funds are in an interest bearing checking account and can be invested. There is no tax on these earnings.</p>
<b>Unspent Funds</b>	<p>Employer can choose to rollover funds to employee each year or limit how much may roll over, if any.</p> <p>Employer can keep unspent funds if employment is terminated.</p>	Employee keeps any unspent funds year after year.
<b>Contributions</b>	<p>Employer determines allocation of funds.</p> <p>Allocations can be made up front or evenly throughout the year.</p>	<p>Contribution limited to \$3,100 for 2012 and \$3,250 for 2013 for individuals or \$6,250 for 2012 and \$6,450 for 2013 for family, regardless of deductible.</p> <p>Employer contribution can be funded up front or evenly throughout the year (i.e., monthly or by pay period).</p> <p>Pre-tax employee contribution may be funded evenly by month or pay period.</p>
<b>Portability</b>	Typically not portable.	Portable from employer to employer.
<b>Rollover Features</b>	<p>Rollover feature for unused balances.</p> <p>Year 2 rollover amounts are accessible immediately without a waiting period.</p>	<p>Rollover for unused balances.</p> <p>Rollover allowed from FSA (one time).</p>

# FSA vs. HRA vs. HSA

Funding arrangements that can help employers and employees control health care costs have been around for years, but understanding their differences can be challenging. The following chart can help differentiate the three most popular options.

Features	FSA	HRA	HSA
<b>Definition</b>	An account that allows employees to set aside tax-free dollars for health care spending (also for dependent care).	An employer funded arrangement to help employees pay for health care expenses.	A tax-free interest bearing bank account for qualified health expenses.
<b>Eligibility</b>	Employees whose employer offers FSA.	Employees whose employer offers an HRA.	<ul style="list-style-type: none"> <li>■ Must be enrolled in a qualified HDHP.</li> <li>■ Cannot be enrolled in Medicare.</li> <li>■ Cannot be covered by another health plan that is NOT a qualified HDHP.</li> <li>■ Cannot be claimed as a dependent on another person's taxes.</li> </ul>
<b>Health Plan Requirements</b>	No.	No, but HRA plan rules are determined by employer and HRAs are typically linked to an HDHP.	Yes, a qualified HDHP is required.
<b>Contributions</b>	Employer or employee.	Employer only.	Employer, employee, anyone.
<b>Contribution Limits</b>	Set by employer.	No maximum. Up to employer. Funds cannot be contributed by employee.	Maximum HSA contributions are set by the IRS.
<b>When are Funds Available?</b>	Entire amount that would be contributed by the employee over the course of the plan year is available at the beginning of the plan year.	Funds are available as determined by the employer. Only current allocation is available for claims reimbursement.	Funds are available as they are contributed to the account.
<b>What Expenses are Allowed?</b>	Determined by employer – typically medical, Rx, dental, vision and IRS 213(d) expenses. See sample list or visit <a href="http://irs.gov">irs.gov</a> and search for Publication 502.	Determined by employer – typically medical, and Rx expenses as incurred by the employee throughout the plan year.	All IRS-approved expenses – medical, Rx, dental, vision, etc. 213(d). See sample list or visit <a href="http://irs.gov">irs.gov</a> and search for Publication 502.
<b>Is it Portable?</b>	No.	No.	Yes.









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