THE BASICS

High-Deductible Health Plans
and Health Savings Accounts

LGFCU®
LOCAL GOVERNMENT
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Health insurance can be confusing, and not knowing the ins and outs of your plan can end up costing you money. If your employer has recently switched to a high-deductible health plan (HDHP) you may be eligible for a Health Savings Account (HSA) that can help you save on health related costs.

Keep reading for more information about the HSA* offered by Local Government Federal Credit Union, as well as generally helpful information about HDHPs and HSAs.

Contact your health plan administrator for questions about your health plan, or call us at 888.732.8562† with questions about our HSA.

Glossary

Deductible

A specified amount of money that you pay out of pocket for covered services before your insurance will pay a claim. For instance, if your deductible is $1,500, your plan won't pay anything until you have incurred that much in covered health care costs. The deductible may not apply to every service.

Distribution

Money from your HSA that you use to pay for a qualified medical expense. There are tax penalties if you use HSA distributions for expenses that do not qualify for coverage.

High-deductible health plan (HDHP)

A health insurance plan with lower premiums and higher deductibles than a traditional health plan. Coverage by an HDHP that falls within the IRS-defined limits for deductible and maximum out-of-pocket expenses is a requirement for having a health savings account (HSA).

Health Savings Account (HSA)

A tax-advantaged savings account that helps you save and pay for qualified out-of-pocket medical expenses. Tax-advantaged means there are certain tax benefits with this account that you don't get with other accounts.

LGFCU

Local Government Federal Credit Union is a not-for-profit credit union founded in 1983 to address the financial needs of North Carolina's local government employees, elected and appointed officials, local volunteers and their families. LGFCU offers HSAs* to members, and to non-members through their employers.

* You do not need to become an LGFCU member to be a Health Savings Account holder. However, to access additional LGFCU products, services and membership benefits, you will need to become an LGFCU member and open an LGFCU Share Account. For eligibility requirements, visit lgfcu.org or contact us at 888.732.8562.

† Calls may be recorded for quality assurance.

ABOUT HDHPs

High-Deductible Health Plans

HDHPs

An HDHP typically does not cover services and prescriptions until you have met your deductible. With some HDHPs, preventive care does not count toward your deductible and may be covered by your plan at 100 percent, with no out-of-pocket cost to you. Check with your health plan administrator to see if your plan does this.

What's considered preventive care?

Preventive care services may include but are not limited to:

- Annual physical exams
- Immunizations
- Well-child visits
- Screening services

What will I pay for prescription drugs?

With an HDHP, you pay the full cost of the drug, not just a copay like you may be used to with traditional health plans. Prescription drug costs contribute toward your deductible. If you have an HSA, you can use those funds for prescription expenses.

How do I pay for covered services?

That depends on your physician's office. In most cases, you don't pay at the time of service. Your physician will submit your claim to your plan for processing. Once the plan determines what amount, if any, you owe, based on the physician-specific discounts, the physician will bill you directly. If you have an HSA, you can use those funds to pay that bill.

Some physicians already know what plan discounts you are eligible for through their office, and may require payment from you at the time of service for the portion you will owe. You can pay for those services directly from your HSA if you have an HSA debit card (keep reading to learn about the LGFCU HSA*, which comes with a Visa® Debit Card).

Will my deductible and out-of-pocket maximum change based on when I enroll in the HDHP?

No. Under federal law, those amounts will remain the same whether you enroll during the open enrollment period or after the plan year has begun, such as in the case of a new hire or change in status.

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ABOUT HSAs

Health Savings Accounts

HSAs

Why would I need an HSA?

Having an HSA in combination with an HDHP can help cover medical costs in an affordable way. An HSA can be opened by anyone who is eligible, regardless of income.

Am I eligible to open an HSA?

Your income level does not affect whether or not you can open an HSA. In order to open an HSA you must be:

- Covered by an HDHP
- Not covered by any other major health insurance
- Not enrolled in Medicare
- Not eligible to be claimed as a dependent on someone else's tax return

Generally, you may not contribute to an HSA if you also have a flexible spending account (FSA) or health reimbursement arrangement (HRA) that reimburses for qualified medical expenses.

What does an HSA cover?

An HSA can be used to pay your qualified medical expenses. Funds from your HSA can also be used to pay for qualified medical expenses incurred by your spouse and dependents, even if they are not covered by your HDHP. The HSA can be used to pay for expenses that may not be covered by your HDHP as well, such as over-the-counter medications prescribed by your doctor.

The expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. Primarily is the key word. Expenses that are simply beneficial to your health, like vitamins or a vacation, are not expenses for medical care. Other ineligible expenses include things like cosmetic surgery, teeth whitening or cough and cold medications.

In general, health insurance premiums (what you pay for your health insurance) are not considered qualified medical expenses except for:

- Qualified long-term care insurance
- COBRA health care continuation coverage
- Health care coverage while receiving unemployment compensation
- Premiums for Medicare Part A or B

For a complete list of qualified HSA distributions, visit www.irs.gov/publications/p502/.

HSAs

When can I open an HSA?

You should open your HSA as soon as you enroll in an HDHP. The HSA will not cover expenses incurred before the account was opened.

How much can be contributed to my HSA?

Contribution limits are subject to change annually, but the limits do not change based on who makes the contributions or what your compensation is. Visit www.irs.gov/publications/p969/ for the most up-to-date information about HSA contribution limits.

How are contributions made to my HSA?

You, your employer, or any other person can make contributions to your HSA. Contributions can start on January 1, at the beginning of the federal income tax year. The deadline to contribute is generally April 15 of the following year.

You can contribute in one lump sum, or any amount or frequency you wish up to the annual maximum contribution allowed. Some financial institutions that issue HSAs may set requirements for your contributions. An LGFCU HSA* allows you to contribute as much as and whenever you want within limits. You don't have to elect to make HSA contributions for a full plan year, but you must elect HDHP coverage for the full plan year unless you have a change in status.

You can continue to contribute to your HSA even if during the plan year you change from employee-only coverage to family coverage, or vice-versa, based on a qualifying event.

What's a catch-up contribution?

Federal rules permit "catch-up" contributions to HSAs if an individual is 55 or older, allowing an increase in annual contributions up to an additional $1,000 per year. You may be familiar with this term already, since this kind of contribution is also allowed for other kinds of accounts, like retirement.

When can I receive distributions from my HSA?

You are allowed to receive distributions at any time; however, you may only withdraw the amount currently in your account. Unlike a flexible spending account, you cannot withdraw against future HSA contributions. So if you've contributed $100 to your HSA, you have $100 available to use to pay for qualified expenses.

Can any unused funds from my HSA be rolled over into the next year?

Yes. Your funds will accumulate without a maximum cap. However, the annual limit you can contribute to the HSA may not exceed the maximum contribution amount set by the IRS, plus catch-up contributions for those age 55 and older. For the annual contribution amount, visit www.irs.gov/publications/p969/.

Can I open an HSA with or for someone else?

No. An HSA can only be opened and held by a single account holder. You can use the money in your HSA to pay for qualified medical expenses of your spouse and/or any family member who qualifies as your tax dependent. However, if that person isn't covered under your plan, his or her expenses won't be applied toward your deductible.

What if I change jobs or health plan coverage?

Even if you no longer have HDHP coverage or your employment ends, you can still use the funds from your HSA, although you can no longer make contributions.

What are the tax implications and benefits of an HSA?

Generally, contributions you make to your HSA reduce your taxable income for the year. Earnings grow tax deferred, which means you do not pay tax each year on the gains. Distributions used for qualified medical expenses are tax free.

When you file your taxes you'll need to submit a Form 8889, which shows all of the contributions to and withdrawals from your HSA. Withdrawal information can be found on Form 1099-SA which your HSA administrator will provide. Visit www.irs.gov/uac/About-Form-8889 for detailed information about filling out Form 8889.

Contributions you make to your HSA are tax deductible. If you make after-tax contributions to your HSA (after you've been paid and the taxes already taken out, for instance, instead of automated pre-tax contributions via payroll) you can note those as "above-the-line" deductions on Form 1040, without needing to itemize. "Above-the-line" means your post-tax contributions to your HSA can be subtracted from your gross income. If you make $35,000 and contributed $2,000, you'll only need to pay taxes on $33,000.

All distributions from your HSA are reported on a Form 1099-SA under box 1. Qualified and non-qualified distributions are reported with distribution code 1-Normal. When you complete Form 8889, you will report what amounts were spent on qualified expenses and non-qualified, if applicable. Funds used for non-qualified expenses are subject to ordinary income tax and an additional 20% tax. The 20% tax doesn't apply if you are over age 65, are disabled or the funds are distributed to your beneficiary.

Qualified medical expenses paid for with funds from your HSA, except certain long-term care insurance premiums, cannot also be used as medical expenses on your Schedule A. See IRS Publication 969 for more information about long-term care insurance premiums.

If you contribute more than the federal limit allows, those excess contributions are subject to a 6% excise tax for each tax year that they remain in the account. To avoid that tax, withdraw the excess amount and any related earnings by your tax return due date, including extensions, for the year the contribution(s) were made. It is your responsibility to track the amounts deposited and spent from your account, just like any other kind of savings account.

Eligible contributions to HSAs reduce the amount of your income that is subject to tax. You can claim a deduction on your tax return for contributions you or anyone other than your employer makes directly to your HSA. Contributions you make through a cafeteria plan at work are automatically excluded from your gross income by your employer.

When you die, any balance in your HSA becomes the property of the beneficiary you have named. If it's your spouse, the HSA becomes your spouse's HSA and is only subject to income tax if the distributions are not used for qualified medical expenses. If you have named someone other than your spouse as the beneficiary, the HSA ceases to be an HSA on the date of your death, and the beneficiary will be taxed for those funds.

LGFCU HSA

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The LGFCU HSA

How do I open an LGFCU HSA?*

An HSA can be opened by anyone who is eligible, regardless of income. Non-members may open HSAs through their employers. For full LGFCU benefits in addition to your HSA, you must also open a Share Account with a minimum of just $25. A Share Account is what we call a savings account, and it's the basis for your membership with LGFCU.

To open an HSA or Share Account, call 24/7 Member Services at 888.732.8562† or visit your local branch.

Does the LGFCU HSA cost me anything or earn dividends?

The LGFCU HSA has no monthly service charge or maintenance fee. There's no deadline to take money out of the account, and you're not required to maintain a minimum balance or deposit. Your account will even earn dividends when you have funds in your HSA. The dividend rate is determined by the board of directors and is subject to change daily.

How can I track my account balance and activity?

You can track your HSA online through Member Connect, which you can access via **lgfcu.org**. You can also use our 24-hour voice response service or call us at 888.732.8562.†

How can I get a disbursement from my LGFCU HSA?

Once you have enrolled in the HDHP through your employer and opened an HSA at LGFCU, you will receive an HSA Visa® Debit Card to use for all qualified medical expenses. When you use the debit card, it will immediately deduct the amount spent from your HSA.

If you need to pay for an expense but you don't have your debit card with you, you can use another form of payment and reimburse yourself from your HSA.

You can access your HSA funds via ATM, at your local branch or move money from your HSA to another LGFCU account online via Member Connect.

Keep accurate records and receipts of anything you purchase with your HSA in case you're ever audited.

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Can I access all of LGFCU's membership benefits with my HSA?

You do not need to become an LGFCU member to be a Health Savings Account holder. However, to access additional LGFCU products, services and membership benefits, you will need to become an LGFCU member and open an LGFCU Share Account.*

A Share Account is what we call a savings account, and it's the basis for your membership with LGFCU. You can open a Share Account with a minimum deposit of $25, and the dividends in your Share Account compound daily and are paid monthly. The dividend rate is set by the Board of Directors and is subject to change daily.

Once you join, your family is eligible to join, as well. And you're a member for life, even if you change jobs.

To learn more about our Health Savings Account, Share Account and all of our great products and services, visit **lgfcu.org**.

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