Frequently asked questions about Your Humana HDHP and HSA

HDHP Questions

Q. What is an HDHP?

A. A High Deductible Health Plan (HDHP) is a plan that meets certain IRS criteria. You must be covered by a High Deductible Health Plan to contribute to a Health Savings Account (HSA). Here are the basic requirements:

- For 2013, the plan deductible must be at least $1,250 for single or $2,500 for family coverage.
- For 2012, the plan deductible must be at least $1,200 for single or $2,400 for family coverage.
- For 2013, the plan's maximum out-of-pocket must be less than or equal to $6,250 for single or $12,500 for family coverage, including the deductible.
- For 2012, the plan's maximum out-of-pocket must be less than or equal to $6,050 for single or $12,100 for family coverage, including the deductible.
- All covered medical services, including prescriptions, are integrated with the medical deductible and out-of-pocket maximum.

Q. Can a health plan that doesn't have a deductible for preventive care still qualify as a High Deductible Health Plan?

A. Yes, a plan can still be considered a High Deductible Health Plan even if it doesn't have a deductible – or has just a small deductible or copayment – for preventive care. Preventive care can include periodic health evaluations, routine prenatal and well-child care, child and adult immunizations, and certain screening services. Check your Benefit Plan Document for details.

Q. Is it more expensive under the HDHP to use out-of-network providers?

A. Yes. You'll be responsible for a larger portion of the costs with out-of-network providers.

Q. Where can I find the drug list for the HDHP?

A. You can find the approved drug list for the HDHP on MyHumana, your secure website on **Humana.com**. The drug list is located on the "Pharmacy Tools" page under the "Doctors & Rx" section. Remember, drugs have to be on the list to be covered or count toward your deductible. As a Humana member, you can get drugs that are not on the list at a discounted rate, which may be lower than the retail price. The drug list also describes any required authorizations or limitations on certain drugs.

Q. Can I be covered by another health plan and still be eligible for an HSA?

A. The answer depends on the type of coverage you have with the other plan:

- If the other plan isn't a High Deductible Health Plan or you or your spouse have a Flexible Spending Account (FSA) or a Health Reimbursement Arrangement (HRA) under the other plan that pays for medical expenses, you're not eligible for an HSA.
- If the other plan is a High Deductible Health Plan, you're eligible for an HSA. And it's OK if you have an FSA or HRA with this second high deductible plan as long as you can't use the FSA or HRA to pay for medical expenses until you satisfy the deductible. However, you can use these spending accounts to pay for vision, dental care, and preventive services anytime.

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Q. What other types of health coverage can I have and still have an HSA?

A. You can have an HSA if you have one or more of the following types of coverage in addition to a High Deductible Health Plan:

- Insurance under which most of the coverage relates to workers' compensation laws, lawsuits, property ownership, or use of property, such as automobile insurance
- Insurance for a specified disease or illness, like a cancer policy
- Insurance paying a fixed amount per day – or other period – of hospitalization
- Coverage – whether through insurance or otherwise – for accidents, disability, dental care, vision care, or long-term care
- Employee assistance program, disease management, or wellness programs
- Drug discount cards
- Eligibility for Veterans Affairs (VA) benefits, unless you've received VA health benefits in the last three months.

Establishing an HSA

Q. Am I eligible for an HSA?

A. To be eligible, the following must be true:

- You must be covered by a qualified High Deductible Health Plan
- You can't be claimed as someone's dependent
- You aren't covered by other disqualifying insurance as described in the previous questions
- You aren't enrolled in Medicare

Q. How can I set up an HSA?

A. If you're eligible for an HSA, as described above, you can open one with a qualified HSA trustee or custodian, such as a bank or insurance company. You don't need permission from the IRS.

Q. If I enroll in a High Deductible Health Plan but waive the HSA, can I establish an HSA later?

A. Yes. An HSA can be established any time after enrolling in a qualified High Deductible Health Plan. You can contribute the maximum amount for the year – in 2013, that's $3,250 if you have single coverage or $6,450 for family coverage; in 2012, that's $3,100 for single coverage or $6,250 for family coverage.

Q. What HSA custodian does Humana work with?

A. Humana's banking partner for HSAs is UMB Bank (NASDAQ symbol UMBF), a full-service financial institution headquartered in Kansas City, Missouri.

Q. Can I cancel my HSA?

A. You have seven days after the date you set up your Health Savings Account with UMB Bank to cancel the account. You'll need to send a written notice to:

UMB Bank, n.a.
P.O. Box 419226
Kansas City, MO 64141

Or you can call Humana's automated Customer Service at **1-800-604-6228** to cancel your account.

If you mail a notice, we'll consider the postmark date, or date of certification or registration, as the date of delivery, as long as you follow normal mailing procedures, such as ensuring the mail has enough postage.

If you cancel your account within the specified time, we'll return the entire balance of your account without charging any fees, expenses, or commissions. However, you may be responsible for a 20 percent IRS penalty on any account funds used for nonqualified medical expenses.

Contributions to HSAs

Q. Who can contribute to my HSA?

A. Any person – an eligible individual, an employer, a family member, or any other person – can contribute to your HSA. Each contribution counts toward the maximum amount you can contribute to the HSA in the year. See your tax advisor for details.

Q. How much can I contribute to an HSA?

A. The maximum amount you can contribute to an HSA in any year is dependent on whether you have single coverage or family coverage. The IRS-allowed amounts for 2013 are $3,250 for single coverage and $6,450 for family coverage. The IRS-allowed amounts for 2012 are $3,100 for single coverage and $6,250 for family coverage.

Q. When can I make "catch-up" contributions to an HSA?

A. If you are age 55 and older, or turning 55 during the calendar year, you can make additional catch-up contributions to your HSA. For 2009 and beyond, the maximum additional catch-up contribution is $1,000. If you have HDHP coverage for the full year, you can make the full catch-up contribution, no matter when your 55th birthday falls during the year. If you don't have HDHP coverage for the full year, you must prorate your catch-up contribution for the number of full months you're eligible – i.e., had HDHP coverage. However, if you are covered on December 1, you are treated as an eligible individual for the entire year and you can make the full contribution.

Q. Is there a lifetime maximum contribution limit for the HSA?

A. No. Contribution limits only apply to the annual IRS-allowed amount.

Q. How do I make contributions to my HSA?

A. You can contribute by paycheck deductions, which are tax-free contributions. You also can make cash contributions directly into your HSA. UMB also accepts rollovers or transfers of assets from an Archer Medical Savings Account (MSA), Individual Retirement Account (IRA), or another HSA – in accordance with the IRS regulations – as long as these rollover contributions are made in cash. If you wish to contribute additional money, you can download and print a deposit slip on MyHumana. Write your HSA account number and deposit amount on the deposit slip and then mail the deposit slip with the check to the address listed on the slip. Just make sure your extra contributions don't exceed the IRS limit; check with your tax advisor for specific advice.

Q. How can I change my contribution amount during the plan year?

A. You can change your paycheck deduction amount or stop contributing anytime by by letting your employer know.

Q. How are my HSA contributions treated on my federal taxes?

A. When you contribute to an HSA, you can deduct the amount – up to the maximum contribution limit discussed above – from your adjusted gross income. You can deduct your contributions even if you don't itemize.

UMB sends required forms annually to the IRS and to you for year-end tax preparation. State tax treatment may vary. You should consult a tax advisor to address specific circumstances.

Q. How are employer contributions to my HSA treated on my taxes?

A. If your employer makes a contribution to your HSA, the contribution is not taxable to you. The contribution is excluded from your income. You should consult a tax advisor to address specific circumstances.

Q. When is the yearly deadline for contributions to my HSA?

A. You can make HSA contributions for a particular year no later than the deadline, without extensions, for filing your federal income tax return for that year. For example, you can make contributions for 2012 until April 15, 2013. You need to notify UMB in writing that the contributions are for 2011. If you don't, UMB treats any contribution as a contribution for the current year – in this case, 2013.

Q. What happens if my HSA contributions exceed the amount that may be deducted or excluded from my gross income?

A. Contributions you or anyone else, such as your employer, make to your HSA that exceed the amount allowed by law, or which are made during any year when you're not eligible to contribute, are called "excess contributions." You can't deduct these excess contributions, and they're included in your gross income. There's also a 6 percent penalty on the excess funds, including any earnings through interest or investments, for each year they remain in your HSA. However, you can avoid this tax on excess contributions if you don't deduct the contributions on your taxes, and you take them out of your HSA along with any interest or capital gains they've earned, before the due date for filing your federal income tax return, including extensions, for the year in which you made the excess contributions.

If you take the excess funds out of your HSA, the funds and any net income from the excess contribution is taxable as income for the year in which the contribution was made. Rollover contributions from a previous year or from an Archer MSA don't count when determining if you've made an excess contribution. Funds transferred from an Individual Retirement Account (IRA) do apply to the maximum contribution limit. Note: if you roll over HSA funds from another HSA, and those contributions were made in the same calendar year, the rollover would apply to the limit.

Q. Who is responsible for determining the amount of eligible contributions?

A. Under IRS rules, as the accountholder, you're responsible for determining the amount of eligible HSA contributions each year. Check with your tax advisor about your personal situation. Neither Humana nor UMB determine or offer advice about your compliance with the requirements and limitations of the IRS code.

Q. Do I have to contribute to the HSA to receive my employer's contribution?

A. If your employer contributes a set amount for all employees with a High Deductible Health Plan, you receive this contribution automatically by enrolling in the HDHP and HSA. If your employer matches employee contributions, you'll only receive an employer contribution if you contribute, too.

Q. What tools are available to assist me in determining how much to contribute?

A. You have the following options:

- Use the HSA Planner in the member section of **Humana.com**.
- Use the HSA Planner in your online benefits enrollment center.
- Use the paper HSA worksheet available from your employer or from Humana Customer Service at **1-800-604-6228**.

Q. When can I begin making contributions?

A. If you just signed up for the High Deductible Health Plan and HSA, you're required to wait until after the effective date of the plan before contributing to the HSA. If you contribute before the effective date, you're essentially contributing without High Deductible Health Plan coverage, and the contributions would then be subject to a penalty.

Using HSA Funds

Q. Does my entire yearly HSA contribution have to be in the account before I can use the funds?

A. No. You don't have to wait until all the funds are deposited to start making withdrawals, but you can only spend money actually in the account.

Q. How do I access my HSA funds?

A. The HumanaAccess® Visa® Debit Card pays expenses directly from your account. Swipe the card at the provider's office or pharmacy. Or write the card number on your provider's bill to pay directly from the HSA. When using a card reader at the checkout counter, select "credit." You don't need a PIN. You can also access your funds from the automated Customer Service line at **1-800-604-6228**. The voice-activated instructions will walk you through the process of requesting a withdrawal. Humana will send the check to the address we have on record.

Q. If I use a personal check, credit card, or cash to pay for a qualified expense, how am I reimbursed from the HSA?

A. You have two options:

1. Request a check from the automated Customer Service line at **1-800-604-6228**. The voice-activated instructions walk you through the process.
2. For online reimbursement, log in to MyHumana and click the "Spending Accounts" link under the "Claims & Spending" section. Select "Health Savings Account" in the drop-down box and follow the appropriate links.

You should receive the reimbursement check in seven to 10 calendar days and the direct deposit in three to five calendar days.

Q. Can my HSA funds be used for expenses that are not covered under my High Deductible Health Plan?

A. Yes. In addition to using the HSA for expenses that count toward your deductible, you can use it for expenses like over-the-counter drugs (with a prescription), vision care, dental services, and even long-term care insurance. Visit the "Spending Accounts" section of MyHumana to view a sample list of qualified medical expenses.

Q. What happens if all my HSA funds are gone, but I still have deductible left to satisfy?

A. You're responsible for paying your medical expenses until you reach the deductible. Even if you put enough in your HSA to cover your deductible, you may come up short if you use HSA funds for over-the-counter drugs, dental services, or vision expenses.

Q. Do I have to use all my HSA funds each year?

A. No. Your HSA is like a savings account. The funds remain in your account until you spend them.

Q. How can I find out how much is in my HSA?

A. To view the current balance and account activity, you can log in to MyHumana on **Humana.com**. Click the "Spending Accounts" link under the "Claims & Spending" section. Select "Health Savings Account" in the drop-down box and follow the appropriate links.

You can also call the automated Customer Service line at **1-800-604-6228** to check an HSA balance. It's a good idea to check your balance before you use the HumanaAccess Card, just to be sure you have sufficient funds to cover the entire expense.

Q. What happens if I use HSA funds for nonqualified expenses?

A. If you use HSA funds for expenses the IRS doesn't allow, you could be charged tax and penalties by the IRS. You should check with a tax advisor for advice on handling this situation.

It's best to pay the funds back to the HSA by filling out a deposit slip with the payment and checking the "redeposit" box. You can access the deposit slip from "Spending Accounts" under the "Claims & Spending" section of MyHumana. Select "Health Savings Account" in the drop-down box and follow the appropriate links.

Q. If my HumanaAccess Card doesn't work, what could be wrong?

A. The most common reasons a HumanaAccess Card is declined are:

- The card hasn't been activated
- You are using the card at a nonqualified location
- You don't have enough money in the HSA to cover the expense
- You may have pressed "debit" instead of "credit" for the transaction

Q. What happens if I have a Limited Purpose Flexible Spending Account (FSA) in addition to an HSA? Can I use the HumanaAccess Card for both the HSA and FSA expenses?

A. You will get two HumanaAccess Cards with a three year expiration date. One will say "Health Savings Account" on the front, and you can only use it to spend your HSA dollars. Your second card will only say "HumanaAccess Card" on the front. You can use this card to spend your Limited Purpose FSA.

Q. How do I pay for prescriptions and other medications with the HumanaAccess Card?

A. Present the card for payment or swipe it through the credit card machine at the pharmacy counter. The funds are automatically taken out of your HSA. If you use your card to purchase over-the-counter (OTC) medications, remember to save receipts for your HSA purchases in case you have to show proof of valid purchases to the IRS. Under the new law, this includes saving a copy of the prescriptions for OTC medicine, other than insulin. If you do not keep records, you could face income tax penalties. Please see your tax advisor for more details.

You can find a sample list of qualified expenses on MyHumana in the "Spending Accounts" section.

Q. How do I pay doctors' bills using my HSA?

A. Unless the doctor requires payment at the time of service, wait until the doctor sends a bill showing what is owed after the claim is processed. Then check the Visa box on the bill, include the 16-digit HumanaAccess Card number, and send the bill back to the provider. You also can give the doctor the account number over the phone.

If the doctor requires payment at the time of service, use the HumanaAccess Card. If the doctor doesn't take Visa, pay the balance by cash or check and request reimbursement from the HSA. You have two options for requesting reimbursement:

1. Request a check from the automated Customer Service line at 1-800-604-6228. The voice-activated instructions walk you through the process.
2. For online reimbursement, log in to MyHumana and click the "Spending Accounts" link under the "Claims & Spending" section. Select "Health Savings Account" in the drop-down box and follow the appropriate links.

You should receive the reimbursement check in seven to 10 calendar days and the direct deposit in three to five calendar days.

Q. If I overpay a doctor, what's the process for reimbursement?

A. Ask the doctor's staff to credit the HSA by swiping the HumanaAccess Card and reversing the charge for the overpayment. If the doctor sends you a check instead, endorse the check and send it to UMB Bank with a deposit slip. Be sure to mark the "Redeposit" box on the deposit slip. You can find deposit slips on MyHumana. Click the "Spending Accounts" link under the "Claims & Spending" section. Select "Health Savings Account" in the drop-down box and follow the appropriate links.

Q. What should I do with my receipts for HSA transactions?

A. Save all receipts and documentation for all HSA transactions in case the IRS asks for verification that a distribution was for a qualified medical expense. It is your responsibility to maintain records in case of an IRS audit.

Q. What happens if my healthcare expense is more than the amount in the HSA?

A. If the expense is more than the current HSA balance, use the HumanaAccess Card to pay the exact amount left in the account and pay the remaining cost by some other means. Once more funds are added to the HSA, you can request reimbursement.

Q. Can I save my HSA funds for retirement healthcare expenses rather than using them now?

A. Yes, you can save your HSA funds for future healthcare expenses.

Q. Can I buy OTCs with my HSA?

A. Yes, you can buy qualified OTCs with HSA funds. OTC medicines like cough syrup, pain relievers, and allergy medicines require a prescription to be bought with spending account funds. Be sure to save your receipt and prescription for OTC medicines in case the IRS ever asks you to verify an expense. OTCs that aren't medicine, like bandages and contact lens solution, don't require a prescription to be paid for through your HSA.

See appendix A for illustrations on using your HSA.

Investments and HSAs*

Q. Is the HSA an investment account?

A. Think about your HSA as two accounts. First and foremost, the HSA is an interest-bearing savings account that allows you quick and easy access to pre-tax dollars to help you pay for healthcare expenses. Your employer's contribution and any contributions you make go into this savings account.

Once you reach a minimum balance to keep as a reserve in your savings account for healthcare expenses, you may be able to invest the remaining dollars in a self-directed brokerage account or a money market fund sweep account. You have a wide range of nationally recognized funds to choose from.

Q. How do I invest my HSA funds?

A. You can invest your HSA funds by using UMB Financial Services' online self-directed site. You can find the link to the site on MyHumana.

Q. What is the minimum balance I must have in my HSA to have a brokerage account

A. You must have a $1,000 balance in your HSA to open a brokerage account. You have two options to invest your HSA funds: a money market sweep account or mutual funds of your choice.

With a money market sweep account, each night every dollar over the $1,000 balance is swept into a Fidelity money market fund – ticker symbol FMPXX. Once you have $2,000 in your HSA, you can invest in a combination of mutual funds of your choice using UMB Financial Services' online brokerage. You can choose from seven fund families and more than 170 mutual funds to find one that has a $1,000 entry balance and meets your investing goals. Once you've opened a fund, you can increase your investment by $100 increments as long as you keep $1,000 in your cash account. Transaction fees may apply.

Q. What happens if my HSA cash account drops below a $1,000 balance?

A. If you selected the money market sweep option, the money market funds are sold and deposited back into the cash account. Once the cash account reaches $1,000 again, any funds over $1,000 are swept back into the money market fund.

If you invested in mutual funds, the cash account balance can continue to be less than $1,000. You're not required to sell any mutual funds to deposit into the cash account. However, you're not eligible to invest any more funds until the balance is more than $1,000.

*Investment options aren't available with all Humana HSAs. Check with your benefits administrator if you aren't sure which type of HSA you have.

Dependents and HSAs

Q. I am divorced and count my daughter as a dependent on my tax return every other year. Can I cover her under my HDHP and use HSA funds to pay for her medical expenses?

A. Yes. The IRS allows divorced parents to use HSA dollars to pay for dependent expenses as long as the child is a qualified dependent under Internal Revenue Code Section 152. Your daughter is a qualifying child provided if she's younger than 19, younger than 24 and a full-time student, or totally and permanently disabled. A child of divorced or separated parents can be treated as a dependent of both parents. Each parent can use his or her HSA funds to pay for the child's qualified medical expenses, even if the other parent claims the child's dependency exemption, if:

- The child is in the custody of one or both parents for more than half the year;
- The child receives over half of his or her support during the year from his or her parents; and
- The child's parents:
  - Are divorced or legally separated under a decree of divorce or separate maintenance;
  - Are separated under a written separation agreement; or
  - Lived apart at all times during the past six months of the year.

Q. My child is 24 years old and a full-time student. Can I cover him on my High Deductible Health Plan and HSA?

A. You can cover your dependents on the High Deductible Health Plan if they meet the eligibility requirements stated in the Benefit Plan Document. Per IRS rules, you can only use HSA funds to pay for your child's qualified medical expenses provided if he's younger than 19, younger than 24 and a full-time student, or totally and permanently disabled. Because your child is age 24, you can't use the funds from your HSA to reimburse his medical expenses.

Q. If both spouses are covered individually by their respective employer, who determines who covers children?

A. If dependents are covered under both policies, the dependents will be primary on the plan for the parent who has a birthday first in the calendar year. Example: If you and your spouse both cover your children and your birthdays are March 10 for mom and July 9 for dad, the dependents would be primary on mom's plan. This is a standard practice among all insurers.

Q. If I cover my child and myself on my plan, and my ex-husband covers himself and our child on his plan, can I elect the HSA if our child is claimed as a dependent on his taxes?

A. Yes. You can have a High Deductible Health Plan covering employee and child. Your husband can continue to cover your child as well. The IRS rule revolves around who is the owner of the HSA. Since you, and not your child, own the HSA, you can elect the HSA and your child can still be covered under both plans.

Q. If my child has academic coverage for sports, can I still cover him or her as a dependent under my High Deductible Health Plan with HSA?

A. Yes. You can still cover the child on the High Deductible Health Plan and use HSA dollars for the child's medical expenses.

Rollovers and Transfers from HSAs or MSAs

Q. What are the rules about rollovers and transfers of HSAs?

A. If you have HSAs or Archer MSAs with other financial institutions, you can transfer these funds into Humana's HSA, either by rollover or transfer.

- Rollovers – The current trustee of the funds – the custodian – writes a check to you. You have 60 days to deposit the check into the Humana HSA or you'll be subject to taxes and penalties. By law, this method is limited to one rollover per calendar year per account.
- Transfers – The current trustee sends the money directly to Humana's trustee on your behalf. The law permits multiple transfers, but trustees aren't obligated to do multiple transfers. Either trustee can put limits on sending or receiving fund transfers, and bank fees may be applied to the transactions. Humana's banking partner – UMB – doesn't have any transfer restrictions, but you may have to pay an account-closing fee to the current account trustee. If you have multiple HSAs, you can consolidate all of them with UMB if you like.

Rollovers from an Individual Retirement Account (IRA)

Q. When and how can I transfer funds from my IRA to my HSA?

A. The IRS allowed IRA-to-HSA transfers starting January 1, 2007. You can do this kind of transfer only one time. However, if you change coverage from single to family in the same year, you may elect to transfer additional funds from the IRA, as long as you don't exceed the maximum annual contribution limit. To initiate this kind of transfer, complete the trustee-to-trustee transfer form. You can download the form on MyHumana. Click the "Spending Accounts" link under the "Claims & Spending" section. Select "Health Savings Account" in the drop-down box and follow the appropriate links.

Q. Do I have to keep HDHP coverage to avoid taxes on the transfer of IRA funds to an HSA?

A. To avoid taxes and penalties, you must be covered by an HDHP and remain a qualified individual for 12 months after the transfer of funds.

Q. What types of IRAs are allowed to transfer to an HSA?

A. An individual can transfer funds from Traditional or Roth IRAs only. SEP and Simple IRAs do not qualify for transfer.

Tax Treatment of HSAs

Q. How are earnings on HSA funds treated for federal tax purposes?

A. Earnings on amounts in an HSA are not taxable unless the earnings are used for ineligible expenses – generally something other than healthcare. Some states do tax HSA funds, so check with your tax advisor.

Q. Are there any tax issues if I pledge my HSA as security for a loan?

A. Any portion of your HSA that you pledge as security for a loan is treated as being distributed to you in that year. In addition to any regular income tax you owe, you may also be liable for a 20 percent penalty for ineligible distribution.

Q. Does Humana or my HSA custodian provide any tax advice concerning my HSA?

A. Neither Humana nor UMB provide tax advice about your HSA. You are solely responsible for the tax consequences of your HSA, including all contributions and distributions. Please discuss any questions with your tax advisor.

Q. What tax forms relate to HSAs?

A. HSA-related forms include:

- Form 1099-SA – UMB Bank, your account custodian, sends this form to you by January 31. The form reports all distributions from your account.
- Form 5498-SA – UMB sends this form to you by May 31. The form reports all contributions, rollovers, and transfers to your account. You can also view your paycheck deductions on the W-2 form your employer sends.
- Form 8889 – You or your tax preparer complete this form when you file your taxes. The form reports all HSA contributions and distributions – information shown on your 1099-SA and W-2.

Distributions from HSAs

Q. When can I withdraw funds from my HSA?

A. You can withdraw funds from your HSA anytime.

Q. How are distributions from my HSA taxed?

A. Distributions from your HSA are generally excluded from federal income tax if you use the money for healthcare expenses not covered by insurance. If you use the funds for anything other than healthcare expenses, the distribution is included in your taxable income, and you may incur an additional 20 percent penalty. See below for details.

Q. When does the 20 percent nonqualified expense distribution penalty apply to me?

A. Generally, if an HSA distribution is not used for "qualified medical expenses," you'll be required to pay a 20 percent nonqualified expense distribution penalty, unless the distributions are made after your death, disability, or when you reach age 65. Deductions for nonqualified expenses are taxable as income after age 65.

Q. What happens if I receive an HSA distribution as the result of a mistake?

A. If the IRS is satisfied that there is clear and convincing evidence that amounts were distributed from your HSA because of a reasonable mistake, you may repay the mistaken distribution no later than April 15 following the first year you knew, or should have known, about the mistake. Under these circumstances, the distribution isn't included in your gross income or subject to the 20 percent penalty. The repayment is not subject to the 6 percent penalty for excess contributions, but it will be subject to payroll and income taxes. To repay your HSA, log in to MyHumana on **Humana.com.** Click the "Spending Accounts" link under the "Claims & Spending" section. Select "Health Savings Account" in the drop-down box and follow the appropriate links. Complete the slip, mark "redeposit," and mail it with a check to UMB.

Q. What expenses are eligible for tax-free distribution from my HSA?

A. Distributions made for "qualified medical expenses" are generally excluded from your taxable income. "Qualified medical expenses" means amounts paid for healthcare, as defined in Section 213(d) of the Code and Publication 969, for yourself, your spouse, or your dependents – but only if the care was not covered by insurance or another health plan, including a Limited Purpose FSA.

Qualified medical expenses include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body, as well as for transportation primarily for and essential to such care. Qualified medical expenses don't include insurance premiums other than premiums for long-term care insurance, premiums on a health plan during any period of continuation coverage required by federal law, COBRA coverage, or premiums for healthcare coverage while an individual receives unemployment compensation.

You can find a sample list of qualified medical expenses in the "Spending Accounts" section of MyHumana.

Q. Is my custodian responsible for determining whether HSA distributions are used for healthcare expenses?

A. Neither Humana nor UMB determine whether distributions from your HSA are used for qualified healthcare expenses. It is your responsibility to determine the tax consequences of any distributions, to maintain adequate records for tax purposes, and to pay any taxes and penalties resulting from a distribution. Please consult your legal or tax advisor with any questions.

Q. If I'm a retiree and 65 or older, can I receive tax-free distributions from an HSA to pay my contribution to my employer's retiree health coverage?

A. After age 65, you may receive tax-free distributions from an HSA to pay for your employer's retiree health insurance coverage.

Q. If I'm a retiree who is enrolled in Medicare, can I receive a tax-free distribution from an HSA to reimburse my Medicare premiums?

A. Yes, these distributions are tax-free if you're at least 65 years old. When your Medicare premiums are deducted from your Social Security benefits, you can use your HSA to reimburse the Medicare premium deduction, and it's considered a qualified medical expense.

Divorce or Death of HSA Accountholder

Q. What happens if my HSA is transferred because of a divorce decree?

A. If your HSA is transferred to your spouse because of a divorce decree, it's not considered a taxable transfer. After the transfer, your former spouse is the accountholder of the HSA, but the former spouse must ask UMB to transfer the account to his or her name, must provide UMB with a certified copy of the divorce decree and property settlement or transfer agreement, and must sign appropriate documents to establish the account in his or her name.

Q. What happens to my HSA when I die?

A. You can designate one or more beneficiaries to receive your HSA when you die. At any time you can also cancel a beneficiary designation and, if desired, designate different individuals as beneficiaries. To be valid, any beneficiary changes must be on a form provided by or acceptable to UMB. This form is available in the "Spending Accounts" section of MyHumana.

If you don't have a valid beneficiary designation, UMB distributes your HSA assets to your estate. In certain states, you'll need your spouse's consent if you wish to name a person other than, or in addition to, your spouse as beneficiary or change an existing beneficiary designation. Consult with your attorney before making a beneficiary designation.

Q. What are the tax consequences of HSA distributions following my death?

A. If your spouse is the named beneficiary of your HSA, your HSA becomes your spouse's HSA, subject to UMB's consent and the completion of UMB's documents. The surviving spouse is not required to include any HSA amount in gross income for tax purposes as a result of your death, and he or she is subject to income tax only on those distributions that are not made for qualified healthcare expenses.

If, at your death, your HSA passes to a named beneficiary other than your spouse, the HSA ceases to be an HSA as of the date of your death. The beneficiary is required to include the fair market value of the HSA assets – at the date of your death – in his or her gross income for the taxable year that includes the date of death. The includable amount is reduced by the amount in the HSA used, within one year of your death, to pay your qualified healthcare expenses incurred before death. If there is no named beneficiary of your HSA, the HSA ceases to be an HSA as of the date of your death, and the fair market value of the HSA assets as of the date of death is included in your gross income for the year you died.

Statements and Filing Requirements

Q. What information do I need to file with the IRS?

A. As custodian, UMB sends a 1099-SA Form to the IRS and to you each year showing distributions from your HSA as of Dec. 31 of the previous year.

Unless you give UMB written notice otherwise, UMB assumes that any distribution, whether by check, debit card, or otherwise, is a "normal distribution" for tax reporting. Normal distributions include distributions for qualified healthcare expenses and exclude the following:

- Return of excess contributions
- Distributions following your disability
- Distributions following your death
- Prohibited transactions

If a distribution falls within one of these exceptions, UMB must receive notice in writing within seven days following such distribution.

You or your tax preparer will complete Form 8889 when you file your taxes. The form reports all HSA contributions and distributions – information shown on your 1099-SA and W-2.

Mid-Year Enrollees to the HDHP and HSA

Q. What is a mid-year enrollee?

A. A mid-year enrollee is anyone who enrolls in an HDHP with an effective date other than January 1, or becomes eligible to contribute to the HSA after January 1 and has coverage through the end of the year.

Q. If I enroll in an HDHP after January, how much can I contribute for the year?

A. In 2013, you may contribute up to $3,250 if you have single coverage, or up to $6,450 if you have family coverage. For 2012, you can contribute $3,100 for single coverage and $6,250 for family coverage.

Q. If I enroll anytime after January, do I have to keep HDHP coverage to avoid taxes on a full-year contribution?

A. You must be covered by an HDHP and remain a qualified individual for the remainder of the current taxable year and the following year to avoid penalty and taxes for the months not covered by an HDHP.

Miscellaneous

Q. Should I know about any other legal requirements?

A. In addition to the legal requirements mentioned in this question and answer document, your HSA is subject to the following rules:

- You can't invest your HSA funds in life insurance contracts
- With the exception of investments in a common trust fund or common investment fund, you can't mix your HSA assets with any other funds or accounts

Q. What happens to my account if I leave my current employer?

A. Your HSA is yours forever and is portable, so it goes with you if you leave your employer. You can still use the funds even if you don't get an HDHP elsewhere. However, you can keep contributing to the HSA only if you enroll in another HDHP.

Q. Where can I go to find more information about IRS regulations for HSAs?

A. Go to **www.irs.gov** and type "HSA" in the search box at the top of the home page or refer to IRS Publication 969.

Q. What happens if I have a life event, like getting married or having a child?

A. Consult with your human resources representative. When you change your coverage type or deductible level, your maximum annual contribution limit may be affected.

Q. Does the HumanaAccess Card offer Zero Liability?

A. Yes. If someone steals the card or card number and makes a purchase, the cardholder is not financially responsible for the fraudulent activity. If fraudulent activity is noticed on your card, promptly contact Humana to report it.

Q. What are the fees for account activity?

A. The table below identifies the costs for account activities. These fees are as of January 1, 2012, and are subject to change.

Humana*Access* Card transactions	No charge
Overdrafts/returned items – insufficient funds	$25 each item
Wire transfer – a deposit or withdrawal via wire transfer	$10 each transfer
Account closing	$15 each account
Return deposit – a deposit sent directly to UMB fails to clear	$3 each check
Stop payment requests – applies only if the employee has a checkbook for the account	$20 each check
Check copies – applies only if the employee has a checkbook for the account	$10 each copy
Check reimbursement – when an employee requests a check from UMB, rather than using Humana's Website or toll-free phone number	$15 each check
Excess contribution – cost to handle and return deposits above the maximum annual contribution for family coverage plus one catch-up contribution	$15 each deposit until member changes election amount or removes excess funds
Investment fee – purchase or sale of mutual funds	$14.95 each transaction

Appendix A – How it works example – single coverage

Lucy enrolls in a High Deductible Health Plan. Her plan is effective January 1, and has the following features:
- $1,500 single deductible
- 80 percent coinsurance for in-network providers

She also has a Health Savings Account. Even though Lucy and her employer can put up to $3,250 in a Health Savings Account, Lucy funds the account up to the $1,500 deductible:
- $500 from her employer
- $1,000 from Lucy's tax-free paycheck deductions

Year 1

Lucy's healthcare costs are higher than usual because she breaks her leg. Her expenses for the year total $2,715:

- Hospital doctor's services $650
- Hospital facility cost.....$350
- X-rays at hospital $200
- Specialist office visit $315
- Six physical therapy sessions $1,050
- Two prescriptions $150

Here's how Lucy uses her HSA to pay for healthcare

HSA funds $1,500
Total cost of services $2,715
Lucy uses HSA to pay deductible $1,500
Balance of cost of services $1,215
PPO plan pays 80% of costs $972
Lucy pays remaining 20% $243
HSA funds remaining $0

Summary

When the accident happened, Lucy used the HSA dollars deposited so far to cover her deductible. She wrote a check for the rest and then got reimbursed from her HSA when more money went into the account. After Lucy used the HSA to meet her $1,500 deductible, her health plan kicked in to help her pay the remaining $1,215. The plan paid 80 percent coinsurance, and Lucy paid the other 20 percent out of pocket. Because she used all the money in her HSA, Lucy has a zero balance at the end of the year.

Year 2

Lucy's healthcare costs aren't as high as last year. She has an illness that requires two visits to the doctor's office and two prescriptions. Her expenses for the year total $435:

- Two doctor's office visits $200
- Two prescriptions $235

Here's how Lucy uses her HSA to pay for healthcare

HSA funds $1,500
Total cost of services $435
Lucy uses HSA to pay $435
HSA funds remaining $1,065

Summary

Because her healthcare expenses were only $435, Lucy didn't use all of her HSA funds. She also didn't have to use any of her take-home pay to cover out-of-pocket costs. At the end of the year, she has $1,065 left. She can use the money tax-free for healthcare expenses in the future and even invest it tax-free. She can also use these funds to reimburse herself $243 for the amount paid in Year 1.

These examples are for illustration only. The amounts will vary depending on the plan selected and the number of people covered.

Appendix A – How it works example – family coverage

Doug chooses a High Deductible Health Plan that covers himself, his wife Tina, and their two children – 4-year-old John and newborn Julie. Their plan is effective January 1, and has the following features:

- $2,500 family deductible
- 80 percent coinsurance for in-network providers

Even though Doug and his employer can put up to $6,450 in a Health Savings Account, Doug funds the account up to the $2,500 deductible:

- For the first year, Doug's employer contributes $500, and Doug adds another $2,000 in tax-free paycheck deductions.
- For the second year, Doug's employer deposits another $500. Doug adds $2,000 to the account through tax-free paycheck deductions. He also has the $1,725 left over from Year 1

- For the first year, Doug's employer contributes $500, and Doug adds another $2,000 in tax-free paycheck deductions.
- For the second year, Doug's employer deposits another $500. Doug adds $2,000 to the account through tax-free paycheck deductions. He also has the $1,725 left over from Year 1.

Year 1

Both children get sick once during the year. Not surprisingly they spread the illness to their dad – but Tina manages to avoid it. Doug, John, and Julie each visit the doctor once. Doug and John need a prescription to treat the illness, and John gets some lab tests. The family's expenses for the year total $775:

- Three doctor's office visits $300
- Lab tests $100
- Three prescriptions $375

Here's how Doug uses an HSA to pay for healthcare

HSA funds	$2,500
Total cost of services	$775
Doug uses HSA to pay	$775
HSA funds remaining	$1,725

Summary

Because the family's healthcare expenses were only $775, Doug didn't use all of his HSA. He spent his employer's $500 contribution, plus $225 of the money he put in tax-free. At the end of the year, he's spent none of his take-home pay on out-of-pocket costs, and he still has $1,725 left to use for future healthcare expenses.

Year 2

This year, John is injured – leading to X-rays, a three-day hospital stay, knee surgery, and two prescription drugs. On top of that, both Tina and Julie get sick and have to go to the doctor. The family's expenses for the year total $7,710:

- Hospital care $3,000
- X-rays $250
- Surgeon and anesthesiologist $4,000
- Two doctor's office visits $200
- Two prescriptions $260

Here's how Doug uses an HSA to pay for healthcare

HSA funds	$4,225
Total cost of services	$7,710
Doug uses HSA to pay deductible	$2,500
Balance of cost of services	$5,210
PPO plan pays 80% of costs	$4,168
Doug pays remaining 20% with HSA	$1,042
HSA funds remaining	$683

Summary

Doug used the $2,500 in his HSA to meet the plan's deductible, leaving $1,725 in his account. After meeting the deductible, the family's health benefits kicked in to pay 80 percent of the remaining healthcare costs. Doug paid the other 20 percent with his HSA. He didn't have to use any of his take-home pay to cover out-of-pocket costs, and he still has $683 left to use for future healthcare expenses.

These examples are for illustration only. The amounts will vary depending on the plan selected and the number of people covered.

Notes

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Humana®

Humana Plans are offered by the Family of Insurance and Health Plan Companies including Humana Medical Plan, Inc., Humana Employers Health Plan of Georgia, Inc., Humana Health Plan, Inc., Humana Health Benefit Plan of Louisiana, Inc., Humana Health Plan of Ohio, Inc., Humana Health Plans of Puerto Rico, Inc.
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Please refer to your Benefit Plan Document (Certificate of Coverage/Insurance) or Summary Plan Description) for more information on the company providing your benefits.

Our health benefit plans have limitations and exclusions.

An HSA is not a health benefit plan.

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