

HSA Producer Briefings Q & A

June 7, 2005

The following questions and answers were compiled from the Consumer Markets BlueEdge Individual HSA Products Briefings which were held throughout the state last April. Many questions focused on the Health Savings Accounts (HSAs) in general and specifically the HSAs offered by Mellon Financial (“Mellon”). Although we offer our members a packaged solution — the BlueEdge plans teamed with a Mellon HSA, members are free to open their HSA with any financial institution. If you have additional questions, please contact your sales consultant.

General HSA Information

Q: When were HSA plans first offered?

A: The Medicare Modernization Act of 2003 allowed for the establishment of HSAs.

Q: Who is the owner of the Health Savings Account? Can the owner designate a beneficiary? Can the account be held in joint ownership?

A: No, the account cannot be held in joint ownership. There is only a primary account holder. Family members can use debit cards and checks, but are restricted from receiving all account information. Beneficiaries can be designated.

Q: Can a customer fund their HSA for the previous year if they didn't contribute the maximum amount for that year?

A: Yes. They have until April 15 of the following year to make tax-deductible contributions to their HSA.

Q: Can money in the HSA be used to pay for the monthly premium?

A: No. Unless the member is unemployed.

Q: What can money in the account be used for?

A: Qualified medical expenses including those not covered by your insurance plan such as dental work, eyeglasses and hearing aids. A detailed list of qualified medical expenses can be found at http://www.irs.gov/irb/2004-33_IRB/ar08.html.

Q: How would payment work when using a debit card for prescription purchases and doctor's visits?

A: For prescriptions, it would be fine to use a debit card because the pharmacy would apply any BCBSIL discount. For doctor's visits, the member would file a claim first with BCBSIL before paying so that the BCBSIL provider discount could be applied before the member pays.

Q: How will the IRS verify that approved medical expenses were paid with HSA money?

A: The account holder is required to keep and maintain all records. The burden of proof is on the account holder to provide verification of eligible expenses.

Q: Can a customer deposit their entire contribution at the beginning of the year?

A: Yes. However, if they do that and then leave the plan in July, there would be an excess contribution. That excess amount would need to be withdrawn and reported as income. If the member did not withdraw the excess amount prior to April 15th of the following year, they would pay tax and a 6% penalty.

HSA Producer Briefings Q & A

June 7, 2005

Q: What if a family has two different HSA plans — for example, a wife and child are covered by her group HSA plan while the husband has his own individual plan. Could they fund one plan up to the maximum for family and the other up to the maximum for an individual?

A: No. As a family and depending upon deductible levels chosen, the maximum aggregate amount they could fund would be \$5,250, the highest amount currently allowed for a family.

Q: Only one spouse owns an HSA and a qualified HSA medical plan. Can the money in the HSA be used for either spouse (even the spouse who is not covered by the HSA medical plan) as long as the money is used for approved medical expenses?

A: At least one family member must own an approved HSA medical insurance plan in order to own a Health Savings Account. But, once a health savings account has been established, funds from the account can be used for eligible expenses for any family member.

Q: Can money in an HSA be used for non-medical expenses?

A: Yes, but if the member was under age 65, a 10% penalty would apply and the money would need to be reported as income.

Q: Do you need to wait until the deductible is satisfied before withdrawing money from the HSA?

A: No. Funds in the HSA may be used to pay deductible expenses and medical expenses as listed in IRS #213D.

Q: Are there plans to increase the current limits for funding HSAs?

A: Yes, current limits and catch-up contribution amounts will be adjusted for inflation.

Q: If a member opens an HSA in April can she fully fund it for the entire year?

A: No. The amount deposited in the account would be prorated for that year.

Q: If a member has HSA money invested in a mutual fund can a portion of that money be withdrawn to pay for medical expenses?

A: Yes. The account would remain open even if amount invested in the mutual fund falls below the minimum needed to invest.

Mellon Financial HSA Information

Q: Are there investment fees for the Mellon HSA?

A: No, currently only no-load/no-fee institutional mutual funds are offered. With the Mellon HSA, a choice of three Dreyfus mutual funds is offered: a balanced fund, an equity fund and a fixed income fund.

Q: What is the minimum amount a member must have in their HSA before investing in a Dreyfus mutual fund?

A: Mellon requires a \$2,000 balance to invest in mutual funds. Dreyfus mutual funds have a \$2,500 minimum requirement so in this case an account holder would need \$4,500 in their HSA in order to invest.

HSA Producer Briefings Q & A

June 7, 2005

Q: Can customers invest money in mutual funds outside of those offered by Dreyfus?

A: Yes. They can invest in other mutual funds but they would need to set up an additional HSA with another bank or financial institution and then invest the money in the funds offered by that bank. The customer could not open an account with a mutual fund company itself.

Q: What is the interest rate paid on Mellon's HSAs?

A: The transaction portion of the account pays 0.75% interest rate starting with the first dollar.

Q: If someone writes a check, how does Mellon know if it is for medical expenses?

A: They don't. Mellon is not required by the IRS to check and they do not track purchases. Account holders are responsible for accurately reporting to the IRS and abiding by the regulations regarding eligible expenses.

Q: Can a customer fund an HSA when completing an application for the BlueEdge Plan?

A: No. The Patriot Act requires checking account holders to return a signature card prior to the bank opening an account. The first step is to apply for the BlueEdge plan and enroll. Once that is complete, Mellon materials are mailed to the member so they can then open and fund their account.

Q: Is there a minimum contribution required to fund the HSA?

A: No. However, with the Mellon HSA, if the balance falls below \$1,000, a monthly maintenance fee of \$3.45 is applied.

Q: Will Mellon send out year-end 1099 statements regarding accounts?

A: Yes, in addition to monthly statements and annual 5498 forms.

Q: When does the customer send money to fund their HSA?

A: In the Mellon Welcome Kit, which arrives by mail, there will be a signature card for the customer to sign and return and a deposit slip for their initial contribution.

Q: When will customer receive a debit card and checkbook from Mellon?

A: Approximately five business days after a completed signature card is received by Mellon.

Q: Will Mellon solicit HSA customers for 401(k) services?

A: No.

Q: Are there plans to cross-market between BCBSIL/Mellon/Dreyfus?

A: BCBSIL and Mellon have partnered to provide high deductible health plan coverage and HSAs only and there are no plans to cross market other services.

Q: What is relationship between Mellon and Dreyfus?

A: Mellon Financial owns both Mellon and Dreyfus.

Producer-Related Information

Q: Is there any difference in underwriting for HSA plans?

A: No.

Q: Will producers receive a commission/bonus for Mellon HSAs?

A: No.

Q: Do brokers need a security license to sell HSA plans?

A: Not for the accounts themselves. If HSA account holders have detailed questions about the mutual funds offered through Mellon, they will be referred to a licensed mutual fund representative at Mellon.

Q: If a producer moves a client from Blue Value to an HSA plan using a change of coverage form, does preexisting start up again?

A: No.

Q: What benefits in the BlueEdge plans are subject to the deductible?

A: All benefits are subject to the deductible.

Q: Regarding the BlueEdge products, is there a separate out-of-pocket maximum for out-of-network providers?

A: Out-of-pocket maximums double when using a non-participating provider. The individual out-of-pocket maximum becomes \$6,000 and the family out-of-pocket maximum becomes \$12,000. Refer to page one of the Outline of Coverage for the BlueEdge Individual HSA. The deductibles remain the same whether in-network or out-of-network.

Q: Can a current BCBSIL member convert from an existing plan to a BlueEdge plan?

A: Yes. Upgrade/downgrade rules would apply. Please see page 11 of our Product Guide for further information.

Q: There appears to be no family discount for the BlueEdge product for two adults. Is that true?

A: There is a 10% family discount that applies to purchasing family coverage. The discount does not apply to maternity coverage premium.

Q: I want to confirm that the current BCBSIL High Deductible Plan is still being offered. This is correct? Why isn't it considered a "BlueEdge" product?

A: The current BCBSIL high deductible plan will continue to be offered as part of our portfolio of HSA-compatible product offerings. The "BlueEdge" moniker was assigned to our two new HSA products, which were recently released with eligible effective dates starting 04/01/05.

HSA Producer Briefings Q & A

June 7, 2005

Q: Regarding the \$2,250 High Deductible Health Plan, how does a family reach the out-of-pocket maximum of \$5,500 if the maximum family deductible is \$4,500 (plan pays 100% after the family deductible)?

A: While in-network, the maximum out-of-pocket expense for individuals is \$2,250 and for families is \$4,500 under this plan. For members who go out of network, there are additional expenses that must be met before the stop-loss is incurred. Hospital benefits are paid at 80% at non-participating providers and 50% at non-plan providers. The additional out-of-network amounts are \$750 for individuals and \$1,000 for families. This would make the out-of-pocket maximum for families \$5,500 when out-of-network. Blue Cross and Blue Shield of Illinois pays 100% of subsequent covered expenses for the remainder of that year.

Q: If a member is returning to a foreign country can they continue their BCBSIL plan and HSA account?

A: Yes. Premiums would increase to Area 1 rates.

Q: Is it possible to have BCBSIL send out notices to brokers of rate increases on each of their major medical policies that will be receiving premium increases 60 days in advance like other carriers?

A: We currently do not have that capability. We do however have several tools available for our Producer network to utilize in helping conserve our mutual blocks of business. First, we notify our Producers of any pending rate actions 60 days in advance in most circumstances via our "Producer Update" communication. Please contact [CCSI](#) Brokerage for details on obtaining renewal rates for your policyholders.