KAISER PERMANENTE DEDUCTIBLE HEALTH PLAN WITH HSA OPTION FROM WELLS FARGO

Employer FAQs

FREQUENTLY ASKED QUESTIONS

Qualified deductible health plan overview

Q. Where can I get more information about Kaiser Permanente's Deductible Plan with HSA Option?
A. For more information, you can call your broker or Kaiser Permanente Customer Service at **303-338-3800 (TTY 303-338-3820)** from 8 a.m. to 5 p.m., Monday-Friday. For inquiries outside the service area, call **800-632-9700**.

Q. What are the deductible and OOP maximum requirements for a qualifying deductible health plan in Colorado?
A. In Colorado for small groups, for 2004, a qualifying deductible health plan must have a minimum deductible of $2,000 (self-only coverage) or $4,000 (family coverage). The OOP maximum cannot exceed $5,000 (self-only coverage) or $10,000 (family coverage).

Q. What is a deductible?
A. A deductible is the amount of covered health expenses a member must pay in a calendar year before coverage is provided. Certain services are not subject to the deductible.

Q. What is coinsurance?
A. Coinsurance is a percentage of the charges an employee must pay for covered health care services after their deductible has been met for the calendar year. For example, an employee might pay for 20 percent of charges for covered doctor's office visits. Coinsurance applies after the deductible has been satisfied and until the out-of-pocket maximum is reached.

Q. What is an out-of-pocket (OOP) maximum?
A. An OOP maximum is the annual limit to the total amount of deductibles, copayments and coinsurance an employee must pay in a calendar year for covered health care services. Once the OOP maximum is reached, Kaiser Permanente pays for 100 percent of the covered services for the remainder of the calendar year.

Q. Do the deductible and coinsurance contribute to the out-of-pocket maximum?
A. The deductible contributes toward the OOP maximum. For example, if an employee has a deductible of $1,500 and an OOP maximum of $3,000, once the deductible is met, the employee will have $1,500 of additional expenses before the OOP maximum is satisfied. The remaining $1,500 will be covered with either coinsurance or copayments, depending on the plan the employee selected.

Q. What medical expenses are subject to the deductible and contribute toward the OOP maximum?
A. Examples of services that are subject to the deductible and contribute toward the OOP maximum include, but are not limited to, office visits (primary care and specialty); hospitalization; outpatient surgery; mental health and chemical dependency services; emergency, laboratory, and radiology services; and durable medical equipment. Beginning in 2006, prescription drugs will be subject to the deductible and will accumulate toward the OOP maximum.

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Q. Does the deductible apply to preventive care?
A. No. Preventive care services are covered at 100 percent — there are no deductibles, copayments, coinsurance, or other out-of-pocket costs.

Q. What is covered under preventive care?
A. Kaiser Permanente offers a wide range of preventive care services, including:

- ✔ Routine physicals
- ✔ Well-woman services including mammograms, clinical breast exams, and chlamydia tests
- ✔ Well-child care
- ✔ Immunizations
- ✔ Diabetes screenings
- ✔ Prostate screenings
- ✔ Cholesterol screenings
- ✔ Fecal occult tests
- ✔ Flexible sigmoidoscopy

Q. Are pharmacy/prescription drug expenses covered under the prescription drug rider subject to the deductible and do they contribute toward the OOP maximum?
A. If you have purchased a prescription rider, pharmacy/prescription drug expenses for items covered under the rider will not be subject to the deductible or contribute toward the OOP maximum in 2005. Beginning January 1, 2006, however, all pharmacy and prescription drug expenses will be subject to the deductible and contribute toward the OOP maximum.

Q. How will members know the amount they will be charged for their visit?
A. Before all office visits and scheduled procedures, such as outpatient surgery, Kaiser Permanente will call with the estimated costs of services to be rendered. Members can also call Customer Service at **303-338-3800 (TTY 303-338-3820)** from 8 a.m. – 5 p.m., Monday–Friday, to receive an estimate of charges. They may also contact Customer Service through our Web site at kaiserpermanente.org.

Q. How does the family deductible work?
A. The family deductible applies to the family as a whole. The family deductible applies to the family as a whole. The deductible may be satisfied by expenses incurred by one family member or a combination of family members. Once the deductible has been satisfied during a calendar year, all family members are exempt from any further deductible requirements for that year.

Q. How does the OOP maximum work for families?
A. Eligible expenses for one family member, or any combination of family members, can satisfy the OOP maximum for the whole family unit. Once the OOP maximum is reached, Kaiser Permanente pays for 100 percent of covered services for the entire family, for the remainder of the calendar year.

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Health savings accounts (HSAs) overview

Q. What is an HSA?

A. An HSA is a tax-exempt trust or custodial account established for the purpose of paying qualified medical expenses.* It allows the employee to pay for current health care expenses and save for future qualified medical expenses and retiree health expenses on a tax free basis. The money the employee invests in an HSA is tax deductible and any earnings on their HSA contributions accumulate on a tax-deferred basis. The money in the account can be withdrawn tax free and without penalty at any time to pay for qualified medical expenses. Unused balances roll over from year to year. Before the employee reaches age 65, if money is withdrawn for reasons other than a qualified medical expense, it is taxable and subject to an additional 10 percent penalty by the IRS. After age 65, there is no penalty for nonqualified withdrawals but the amounts are taxable.

* The tax references contained in this document relate to federal income tax only. The tax treatment of Health Savings Account (HSA) contributions and distributions under your state's income tax laws may differ from the federal tax treatment, and from state to state. Consult with your financial tax advisor for more information.

Q. Who owns the HSA?

A. The assets belong to the employee. If an employee leaves your company for any reason, the HSA account moves with the employee.

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FREQUENTLY ASKED QUESTIONS

HSA eligibility and ownership

Q. Who is eligible for an HSA?

A. To be eligible for an HSA, an individual must be covered by a qualifying deductible health plan, also known as a high deductible health plan. Also, they generally may not be covered by other health insurance that is not a qualifying deductible plan, with certain exceptions. Some of the exceptions include workers compensation, specific injury insurance, and insurance for accidents, disability, dental care, vision care, or long-term care. An individual is not eligible for an HSA if he or she is enrolled in Medicare or can be claimed as a dependent on someone else's tax return.

Q. Can a person still be eligible for an HSA if they have any type of insurance or other coverage?

A. An individual may still be eligible for an HSA if they have worker's compensation, property insurance, insurance for a specific disease such as cancer coverage, or insurance that pays a daily fixed amount for hospitalization. Dental, vision, long-term care, accident, and disability coverage are also allowed.

Q. Can individuals enrolled in Medicare open an HSA?

A. No. Those enrolled in Medicare may not open or contribute to an HSA.

Q. If an individual has a pre-existing condition, do they qualify for an HSA?

A. Yes. However, any services or benefits to treat an existing illness, injury, or condition will not be classified as preventive care and thus will carry a fee for service or copay charge.

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FREQUENTLY ASKED QUESTIONS

Establishing and administering an HSA

Q. How do my employees set up HSAs?

A. Employees can set up their health savings accounts through insurance companies, banks and other approved HSA providers. For added convenience, Kaiser Permanente has selected Wells Fargo as the preferred provider and has arranged to make their HSA services available to our health plan members. Wells Fargo enrollment packets can be provided to set up new accounts. Employers and employees can obtain all the sign-up forms online. Log onto **http://www.wfhbs.com/kaiserpermanente**, or call a Wells Fargo HSA customer service representative at **866-890-8308** between 6 a.m. and 6 p.m. MT.

Q. What, if any, are the fees to set up an HSA account with Wells Fargo?

A. Wells Fargo will charge a member administrative fee of $3.25 per month. This fee will be waived if the member reaches and maintains an HSA balance of $2,500.

Q. What are the investment options for HSA funds?

A. Members may choose from various Wells Fargo investment funds. A brief overview of each of the available funds is included in the enrollment package.

Q. How can my employees keep track of their HSA balances?

A. Wells Fargo will mail a quarterly statement to participants. The statement will show total distributions and contributions as well as investment earnings. Your employees can also access this information online at **http://www.wfhbs.com/kaiserpermanete**, or call a Wells Fargo HSA customer service representative at **866-890-8308** between 6 a.m. and 6 p.m. MT.

Q. What happens if medical expenses exceed the amount in an individual's HSA fund?

A. Once HSA funds are exhausted, the individual is responsible for payment of covered services according to their plan coverage. If the individual has reached their out-of-pocket maximum for the calendar year, Kaiser Permanente will pay 100 percent of the covered services for the rest of that year. Members are always financially responsible for non-covered health care services.

Q. Can HSA funds be rolled over into an IRA?

A. No. HSA funds cannot be rolled over into an IRA. They can stay in the HSA or be rolled into another HSA.

Q. What happens to HSA funds if a couple divorces?

A. The HSA stays with the account owner.

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Establishing and administering an HSA

Q. What happens to HSA funds in the event of disability?
A. If an HSA account holder becomes disabled he or she can obtain a distribution from the HSA for any reason and it will not be subject to the 10 percent penalty regardless of the HSA holder's age.

Q. What happens to HSA funds in the event of death?
A. Upon the death of the HSA account holder, the account will pass to the beneficiary named by the HSA holder. If that beneficiary is a spouse, the HSA will retain the characteristics of an HSA. If the beneficiary is not a spouse, the HSA will be liquidated and distributed to the beneficiary by the end of the year following the HSA holder's death. The amount distributed will be taxable to the beneficiary but will not be subject to a 10 percent penalty.

Q. Which tax forms are needed to prepare taxes at year-end?
A. Each January, the HSA account holder will receive a Form 1099-SA from their HSA provider that will list any distributions made from the HSA for that calendar year. The taxpayer with qualified medical expenses will need to complete a Form 8889 to report the expenses as an offset to distributions reported on the Form 1099-SA.

Q. Whom do I call if I have additional questions regarding my Wells Fargo HSA account?
A. You may contact your insurance broker, or call Wells Fargo directly at **866-890-8308** between the hours of 6 a.m. and 6 p.m MT. Or you can call Kaiser Permanente Customer Service at **303-338-3800 (TTY 303-338-3820)** between 8 a.m. and 5 p.m. MT, Monday—Friday. If you're outside the Kaiser Permanente service area, call **1-800-632-9700**.

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FREQUENTLY ASKED QUESTIONS

HSA Contributions

Q. Who can contribute to an HSA?
A. Your company, your employees, your employees' family members, and any other person can make contributions to an HSA. The same annual limits on the contributions made to the account apply regardless of who makes the contribution.

Q. Do employees have to contribute to HSAs?
A. No. But it is to your employees' advantage to contribute to HSAs and pay for qualified medical expenses with tax-free HSA dollars.

Q. Is an employer's contribution to an HSA taxable to the employee?
A. No. HSA contributions are excluded from the employee's taxable income and wages if made by the employer.

Q. Is an employee's contribution to an HSA taxed?
A. No. Individual contributions are an "above-the-line" deduction. All contributions made to an HSA are deductible from the individual's adjusted gross income, whether they itemize or not. However, the individual cannot also deduct the contributions as medical expense deductions under Internal Revenue Code Section 213.

Q. How much can be contributed to the HSA?
A. Annual contributions for 2004 are capped at either the deductible amount or $2,600 for individual coverage and $5,150 for family coverage—whichever amount is less. The amount that can be contributed also depends on the number of months an individual is covered by a qualifying deductible plan during the year. For 2005 and after, these maximums will be indexed for inflation.

Q. What if my employees over-contribute to their HSAs?
A. The excess contribution amount is not tax-deductible. In addition, an excise tax of 6 percent for each taxable year is imposed on the account beneficiary for excess contributions. The employee will have until the due date (including extensions) for filing their tax return for the taxable year to remove excess contributions in order to avoid the excise tax. The excess contribution distributed back to the employee will, however, be taxable.

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HSA Contributions

Q. Can my employees make their entire HSA contribution at the beginning of the year?

A. Yes, up to the applicable limit. They might, however, have to make a corrective distribution later in the year if their eligibility status changes during that year (for example, if they change from single to family coverage). If your employees do make a single contribution, and become ineligible for that level of contribution later in the year, the excess contribution will need to be distributed back to the employee and will be taxable. Depending on the timing of the distribution, it may also be subject to the 6 percent excise tax.

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Q. When can employees change HSA contribution levels?

A. Your employees can change their contribution levels at any time by contacting their qualified HSA provider.

Q. Can my employees who are 55 or older make "catch-up" contributions?

A. Yes. Individuals between 55 and 64 years of age can make additional "catch-up" contributions. Employees may want to consider making these extra contributions in anticipation of medical expenses that will not be covered under Medicare—such as a portion of prescription drug costs or Medicare Part A and B premiums. The schedule for additional "catch up" contributions to an HSA is as follows:

2004—$500
2005—$600
2006—$700
2007—$800
2008—$900
2009—$1,000

Note: Contributions must stop once an individual is enrolled in Medicare. If both spouses are eligible individuals, both may make catch-up contributions.

Q. If an employee becomes covered under a qualified deductible health plan in the middle of the calendar year, how much can they contribute to their HSA?

A. If an employee becomes covered in the middle of the year, their maximum monthly contribution is determined by first dividing their annual contribution by 12. The maximum they can contribute for that year is then calculated by multiplying their maximum monthly contribution by the number of full months of their enrollment in a qualifying deductible plan. For example, if they become enrolled in the qualifying health plan on July 1 and have an annual deductible of $2,500, then their maximum monthly contributions would be $208.33 ($2,500 divided by 12). The maximum you could contribute for that year would be $1,249.98 (208.33 x 6 months).

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HSA Contributions

Q. Can HSAs and HSA-qualified health plans be offered through cafeteria plans?
A. Yes. Both HSAs and HSA-qualified health plans may be offered as options under cafeteria plans. An employee may elect to have amounts contributed as employer contributions to an HSA and a qualified health plan on a salary-reduction basis.

Q. If employers elect to contribute to their employees' HSAs outside of a cafeteria plan, must those contributions be comparable for all employees participating in the HSA?
A. Yes. For all non-cafeteria plans, employer contributions must be comparable (same dollar amount or same percentage of the annual deductible) for all its employees participating in an HSA. If the contributions are *not* comparable, the employer will be assessed an excise tax equal to 35 percent of the amount the employer contributed to all employees' HSAs. If the HSA plan is part of a cafeteria plan, employers have greater flexibility to tailor contributions, but the entire cafeteria plan would be subject to annual nondiscrimination testing under Internal Revenue Code Section 125.

Q. Are part-time employees affected by the comparable contributions equation?
A. No. Part-time employees (those employed fewer than 30 hours per week) can be considered separately.

Q. If an employer contributes to the employee's HSA, can the employer require the employee to use the custodian identified by the employer for the HSA as a condition of receiving the employer contribution?
A. No. The account belongs to the employee, who decides which company will hold the HSA.

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Distributions from HSAs

Q. How are HSA funds withdrawn?
A. Methods for withdrawal are established by each HSA provider. Withdrawals from Wells Fargo HSAs can easily be made using debit cards or a reimbursement claim form that can be submitted via either fax or mail.

Q. Is there a limit to how much can be withdrawn from an HSA?
A. The only upper limit is the account balance. HSA withdrawals cannot exceed the HSA account balance. HSA providers may, however, establish reasonable limits for minimum withdrawals and for the frequency of withdrawals.

Q. How can HSA funds be spent?
A. HSA funds can be used for out-of-pocket medical expenses such as deductibles, copayments, coinsurance, and qualified medical expenses not covered by the qualifying deductible health plan. While funds can be withdrawn for any purpose, if used for nonqualified expenses the amount withdrawn is taxable and subject to a 10 percent penalty by the IRS. After age 65, however, there is no penalty for nonqualified withdrawals, but the withdrawals are taxable.

Q. What is the definition of a qualified medical expense?
A. Qualified medical expenses are defined under Section 213 of the Internal Revenue Code.* Qualified medical expenses and other expenses permitted to be reimbursed from an HSA include, but are not limited to, the following:

- ✔ Doctor visits
- ✔ Ambulance and hospital services
- ✔ Prescription drugs and certain over-the-counter medications
- ✔ Durable medical equipment
- ✔ Dental care and vision care
- ✔ Acupuncture
- ✔ Chiropractic services
- ✔ Qualified long-term care services and limited long-term care premiums
- ✔ COBRA health care continuation coverage
- ✔ Health insurance premiums for individuals receiving unemployment compensation
- ✔ At age 65 and over, Medicare Part A and B, Medicare HMO, and employee's share of employer-sponsored health insurance premiums

A medical expense is not a qualified medical expense if the individual receives reimbursement for it under the insurance coverage. Also, if an expense is paid or reimbursed by the individual's HSA account, that expense cannot be included for purposes of determining their itemized tax deductions.

**Refer to the IRS Web site for a complete list of Section 213(d) expenses*

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Distributions from HSAs

Q. Can HSA funds be used to pay health insurance premiums?
A. Generally not. Exceptions include COBRA health care continuation coverage, limited long-term care insurance premiums, health insurance premiums while an individual is receiving unemployment compensation and, if the individual is over 65, Medicare Part A and Part B, Medicare HMO, and their share of premiums for employer-sponsored health insurance, including retiree health insurance.

Q. What kind of proof is required that confirms HSA dollars were used for qualified medical expenses?
A. HSA holders are expected to maintain records of their medical expenses to show that the distributions have been made exclusively for qualified medical expenses. HSA holders should retain all medical expense receipts and Kaiser Permanente's explanation of benefits to demonstrate amounts were paid for qualified medical expenses.

Q. What happens to the money in an HSA after an individual reaches age 65?
A. At age 65, an individual can withdraw HSA funds for any use. Note, however, that withdrawals for nonqualified medical expenses, although penalty free, will still be subject to taxation. Those funds used for qualified medical expenses, however, are non-taxable.

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FREQUENTLY ASKED QUESTIONS

HSA and other accounts

Q. What are some differences between an HSA and an Archer Medical Savings Account (MSA)?
A. While both MSAs and HSAs require the employee to be covered by high deductible health plans, the minimum deductibles required for MSA-compatible plans are higher than those for HSAs.

Q. What are some differences between health reimbursement arrangements (HRAs) and HSAs?
A. Unlike an HSA, an HRA is a health care savings account that can only be funded by employer dollars. While the funds in an HSA are always portable if an employee changes employers, HRAs are only portable at the discretion of the employer.

Q. What are some of the differences between an HSA and a flexible spending account (FSA)?
A. An FSA is a tax-exempt spending account for qualified health care expenses and dependent care expenses. FSAs can only be established by employers, whereas individuals are permitted to establish their own HSAs. Unlike money in an HSA, unspent funds in an FSA are not portable between employers and any unused balance is surrendered at the end of the year

Q. If an employee already has an FSA or an HRA, are they eligible for an HSA?
A. Generally, if an employee is covered by an FSA or an HRA then they are not eligible to make an HSA contribution, unless their FSA or HSA is limited as follows:

- ✔ Limited-purpose FSAs and HRAs: Reimbursements under these types of spending accounts are restricted to certain permitted benefits, which include vision, dental, and preventive care.
- ✔ Suspended HRAs: Employees who elect to forgo HRA reimbursements for the period in which they are covered by their HSA may participate in an HRA.
- ✔ Post-deductible FSAs and HRAs: Employees are permitted to participate in these types of accounts that provide reimbursements for copayments or coinsurance after the minimum annual deductible has been met.
- ✔ Retirement HRAs: Reimbursements from these accounts are only made after an employee retires.