

# Health Savings Account

## Protecting Your Health & Welfare



### Who Qualifies for an HSA?

You qualify if you:

- Are age 18 or older
- Are not a dependent on another person's tax return
- Have a qualified high-deductible health plan (HDHP)
- Are not covered by any other health plan\*
- You are not enrolled in Medicare

\* *Except certain limited coverage*

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***You save additional money with the health plan's provider network discounts***

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### Introducing a New Health Plan Option

Cobham is pleased to provide you with a new health plan option for 2011 – a Health Savings Account (HSA). Here are some features of an HSA.

- You decide how much you contribute
- Your contributions are tax-free
- Your contributions are taken from your paycheck
- Your money earns tax-free interest
- If you don't spend the money, it rolls over

This newsletter has been prepared to assist you in understanding HSAs. We urge you to review it and all benefit information so you can make informed decisions about your health plan options.

### What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a tax-favored savings account that you own. HSAs help you save for health care expenses with money you set aside.

### How Does an HSA Work?

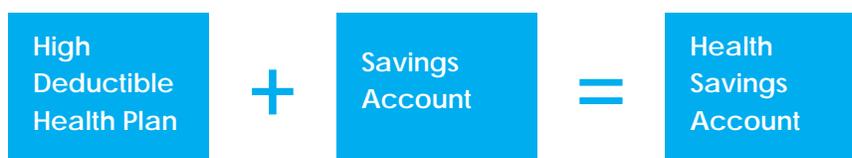
There are two parts to an HSA:

- A high-deductible health plan (HDHP)
- A savings account for health care expenses

To qualify for an HSA, HDHPs have certain rules. Insurance companies call the eligible health plans HSA-compatible. Make sure you select the HDHP for the HSA plan.

Except for certain preventive services, you must pay your deductible first before the HDHP pays for covered expenses.

You can use the tax-free money from your savings account for eligible expenses.



## What Are the Rules for HSAs?

### Contributions and HDHP Limits

Each year the Internal Revenue Service (IRS) issues limits on the amount you can contribute to an HSA. The IRS also regulates the requirements for what qualifies as a HDHP.

Below are the amounts for the HSA plan offered by Cobham.

IRS Maximum Annual Contribution*	
Individual - \$3,050	Family - \$6,150
2011 Deductible for Cobham HSA	
Individual - \$1,250	Family - \$2,500
2011 Maximum Out-of-Pocket for Cobham HSA**	
Individual - \$3,000 (In-network)/\$6,000 (out-of-network) Family - \$9,000 (In-network)/\$18,000 (out-of-network)	
2011 Amount Funded by Cobham	
Individual - \$500	Family - \$1,000

\* If you are age 55 or older and not on Medicare, you can make a "catch-up" contribution. You can contribute an additional \$1,000.

\*\*The maximum out-of-pocket expenses include deductibles, copays or coinsurance (your portion of the coverage). It does not include your premium for the HDHP.

### Using Money From Your HSA

Since you own the HSA, you can use the amount from your savings any way you want, but there are rules regarding how you spend it.

- **Eligible health care expenses** – Money you take from your HSA is tax-free when you use it for eligible health care expenses like deductibles, copays, prescriptions, and covered medical, dental and vision care
- **Non-health care expenses** – If you use your money for non-health care expenses, and you are under age 65, the money is taxed and there is a 20% penalty
- **Over age 65** – The 20% penalty no longer applies after you reach age 65, but non-health care expenses are still taxable
- **Medicare** – You cannot contribute after you elect Medicare, but the savings is still yours to use

*The money in your HSA is yours – you control it – you keep it*

#### PREVENTIVE CARE COVERED AT 100%

Your deductible does not apply to covered preventive services like immunizations, well baby care, and certain cancer screenings.

## Why Should You Consider an HSA?

### You Have Lower Premiums

Just as a higher deductible lowers your car insurance, the high deductible health plan typically offers you insurance at a lower premium than other plans.

### You Have Limits on Your Out-of-Pocket Expenses

The rules for HSAs limit the deductible and other covered out-of-pocket expenses. Depending on your situation, that could mean lower out-of-pocket costs for you.

### You Save on Taxes Three Ways

With an HSA, you save on taxes in three ways.

1. Your contributions go in tax-free
2. Your money grows tax-free interest
3. When you take money out for qualified health care expenses, the withdrawal is tax-free

### You Build Savings

You create savings for future expenses and you can grow your savings through earned interest that's tax-free. Money you do not use rolls over to the next year. There is no "use it or lose it rule" like there is in a Flexible Spending Account (FSA).

### You Control It

You decide how you use your money – you control it – you keep it.

- You decide how much you put in
- You decide if you spend the money now or save it for the future
- You decide if you use the money for retirement
- You can even pass your HSA on to beneficiaries

### Your Employer Helps Fund Your HSA

Even though it is not a requirement, Cobham is helping fund the HSA. Your employer contributes \$500 for your coverage or \$1,000 for coverage for you and one or more dependents. The deposit occurs on the first day of the month of your coverage.

The amount your employer contributes is included in the maximum annual contribution. This means if you have individual coverage, the most you can contribute annually is \$2,550 (\$3,050 maximum - \$500 employer contribution = \$2,550).

#### QUALIFIED EXPENSES

The IRS lists what health-related expenses are qualified expenses through an HSA.

Some qualified expenses may not be covered by your health plan, but you can still use your HSA money to pay for them.

Here are some examples.

- LASIK eye surgery
- Dental care, including braces
- Contact lenses
- Hearing aids
- Wheelchairs
- COBRA premiums
- Medicare premiums
- Long-term care premiums

You can find the full list of allowable expenses in IRS Publication 502.

Go to [www.irs.gov](http://www.irs.gov) and click on "Forms and Publications."

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#### **IMPORTANT**

***This information is a brief overview.***

***Be sure to review health plan and IRS Health Savings Accounts documents***

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## Is an HSA Right for You?

Even though the health plan has a higher deductible, the lower premium may mean lower out-of-pocket costs for you.

Compare your plan options to see if an HSA is right for you. Have these figures ready:

- Your premium cost of your current plan and HSA plan
- The amount your employer puts in the HSA
- Your estimated out-of-pocket expenses

Here is an example for someone with single coverage.

### Current Plan

- 5 Primary Care Doctor visits X \$15 copay = \$75
- 1 Specialist visits X \$30 copay = \$30
- 5 Generic prescriptions X \$10 copay = \$50

Total Out-of-Pocket = \$155

**HSA Plan** – The HSA plan has a \$1,250 deductible. The plan covers certain preventive care at 100%. If you visit network providers, you receive discounted fees.

- 2 Primary Care for preventive visits covered at 100%
- 3 Primary Care visits for illness X \$100 = \$300
- 1 Specialist visit X \$175 = \$175
- 5 Generic prescriptions X \$80 = \$400

Total Out-of-Pocket = \$875



Annual Cost for You	Current Health Plan	HSA Plan
Premium	\$1,200	\$550
Out-of-Pocket	\$155	\$875
Total Cost	\$1,355	\$1,425
Employer Contribution to HSA	N/A	\$500
Remaining Cost	\$1,355	\$925
Estimated Savings	\$430	

*This example is for illustrative purposes only. Actual participant results vary.*

### OUT-OF-POCKET EXPENSES

Your health care costs do not remain the same every year.

Do your best to estimate expenses for a typical year.

- Visits for preventive care
- Primary care doctor visits
- Specialist visits
- Prescriptions
- Planned surgeries

Sometimes the unexpected happens, like accidents or sudden illnesses. You may want to allow extra for the unexpected.

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***Additional information regarding HSA plans will be provided in the coming weeks. If you have questions, please contact the Cobham Benefits Center***

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