

# HSA Guide

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## Questions and Answers on the Health Savings Account (HSA) from John Alden Life Insurance Company

### General Information

*Health Savings Accounts (HSAs) were signed by the President on December 8, 2003. As part of Fortis Health, a national leader in Medical Savings Accounts (MSAs), John Alden Life Insurance Company has fully supported HSAs and was at the forefront of the legislation. HSAs are a significant expansion of the current MSAs. We hope that you and your clients are as excited about the new legislation as we are.*

**Q. *What is a Health Savings Account?***

A. An HSA works like an IRA, except that money is used to pay health care costs. Participants enroll in a relatively inexpensive high deductible insurance plan. Then, a tax-deductible savings account may be opened to cover current and future medical expenses. The money deposited, as well as the earnings, is tax-deferred. The money can then be withdrawn to cover qualified medical expenses tax-free. Unused balances roll over from year to year.

**Q. *Who can qualify?***

A. Everyone (not just self-employed or small businesses) with a qualified high deductible insurance plan will be eligible for a tax-deductible HSA.

**Q. *What is the difference between a Medical Savings Account and a Health Savings Account?***

A. HSAs are a significant expansion of the current MSA program. Unlike MSAs, HSAs provide the following:

- Everyone with a qualified high deductible plan is eligible to participate (includes all size employers, the self-employed, individual and families who are not self-employed)
- HSAs can be funded by the employer, employee or combination of both within the same calendar year
- HSAs are permanent and portable
- Larger tax-deferred contributions to custodial accounts
- There are broader deductible ranges

**Q. *What is a high deductible insurance plan?***

A. For 2004, a high deductible insurance plan is a health plan with a minimum deductible of \$1000 for self-only coverage and \$2,000 for family coverage. The maximum out-of-pocket expenses for allowed costs must be no more than \$5,000 for self-only coverage and no more than \$10,000 for family.

- Q. HSA law allows for higher deductibles than MSAs. When will those deductibles be available on software?**
- A. Individual Medical will offer our current deductibles. Expanded deductibles and coinsurance options will be available by mid-year on software. With our current plan, clients can still maximize the new higher tax-qualified contributions.
- Q. When will John Alden Life Insurance Company start offering HSAs?**
- A. Health Savings Accounts will be available for plans effective January 1, 2004. You can start selling now!
- Q. Are new Adoption Agreements required to enroll the client into an HSA?**
- A. Yes. A new HSA Adoption Agreement will be available December 12, 2003 and is required to establish an HSA. If you have an MSA application in queue with a January 1, 2004 and later effective date, please have the applicant complete the new HSA Adoption Agreement. We will continue to process the application.
- Q. Will John Alden Life Insurance Company continue to administer both the MSA and HSA custodial accounts?**
- A. Yes.
- Q. How do I use software to quote and sell HSAs effective January 1, 2004?**
- A. We are in the process of changing software and product brochure references from MSA to HSA. Until that is accomplished, continue to use the MSA quoting features. Those plan designs are fully compliant with the new HSA law. However, you must use the new HSA Adoption Agreement. It will be available in supply on December 15, 2003.
- Q. What will happen to Medical Savings Accounts effective January 1, 2004 for both inforce and new business?**
- A. MSAs are scheduled to sunset (end) December 31, 2003. Existing MSAs may continue under the current rules. Effective January 1, 2004, those who would have qualified for an MSA will now qualify for an HSA.
- Q. Can a Medical Savings Account be rolled into a Health Savings Account?**
- A. Yes. MSAs can be rolled into HSAs on a tax-free basis, but it is not necessary. If, however, your client chooses to participate in the new HSA contributions limits and deductibles at this time, have him/her complete an HSA Adoption Agreement. Those clients choosing not to roll their MSA to an HSA at this time will receive information from us by the end of the first quarter of 2004 to facilitate a smooth migration from MSA to HSA.
- Q. Can MSA inforce business participate in the new HSA program (i.e. expand the contribution amounts)?**
- A. Yes. Your clients can participate in the new HSA program as long as they complete the new HSA Adoption Agreement. If your MSA clients do not choose to change the deductible, coinsurance limits or contribution amounts, they do not have to do anything. (See question above.)
- Q. What are the new maximum contribution limits?**
- A. Annual contribution limits for 2004 are capped at either the high deductible plan deductible or \$2,600 for individual or \$5,150 for family – whichever amount is less.

- Q. *I enrolled clients in MSAs with 2003 effective dates, but they haven't yet funded their accounts. Do they need to do so before year-end, or can they fund after January 1, 2004?***
- A. Clients have until the tax-filing deadline of the following year to make a contribution for the previous tax year.
- Q. *I have MSA applications or Adoption Agreements in house for effective dates prior to January 1, 2004 . Do I need to do anything?***
- A. No, you do not need to do anything. This business will be processed pursuant to our regular MSA rules and guidelines.
- Q. *I have MSA applications or Adoption Agreements in house for effective dates after January 1, 2004. What do I need to do?***
- A. We ask that you have your client sign a new HSA Adoption Agreement. We will process the application for the high deductible insurance plan pursuant to our normal guidelines. Once we receive the Adoption Agreement, we will set up the HSA account.
- Q. *What if my clients aren't sure they want an HSA? How can I handle that situation?***
- A. If at the time of sale, you believe your client may want an HSA account sometime in the future, but don't want to fund it right now, the best practice is to set up the account immediately. The client doesn't need to fund the account right away. In this situation, have the client complete an HSA Adoption Agreement. Just click on the MSA plan type (soon to be HSA). If you send an HSA Adoption Agreement with the One Deductible Plan type, we will automatically note on our system that the client has enrolled in the HSA (this is required for our reporting to IRS), regardless of what plan type is selected. If you send a One Deductible Plan type without an HSA Adoption Agreement, we will note a One Deductible Plan. If in the future your client wants to set up the HSA custodial account, you can have the client complete the HSA Adoption Agreement at that time.
- Q. *I recently sold a number of One Deductible plans. Now, pursuant to the HSA legislation, these clients are eligible for an HSA. How do I provide access to an HSA account?***
- A. Have your client complete the new HSA Adoption Agreement. Once we receive this HSA Adoption Agreement, we will set up the account and automatically transfer the plan designation to HSA. No underwriting is required if your client isn't requesting a lower deductible.
- Q. *Can I simply use the One Deductible plans for purposes of providing my clients with a qualified high deductible plan?***
- A. For now, no. Use the MSA plan features only. Currently, only the MSA plan feature is set up to denote the type of custodial account (J=John Alden, M=MSAver, O=Other) that is needed to properly administer custodial accounts. As previously noted, we will eventually change our software and reference material to reflect HSAs.

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