Health Savings Account Basics
What you need to know

1. What is a Health Savings Account (HSA)?

   A Health Savings Account (HSA) is a tax-favored, individually-owned account. To contribute to an HSA you must be enrolled in an HSA-eligible health plan like the Advantage Plan. The HSA allows for pre-tax dollars to be set aside for qualified health care expenses, (as defined in IRS publication 502 available at irs.gov). Contributions, earnings, and withdrawals used to pay for current and future health expenses are not subject to federal and most states' taxation.

2. How does an HSA work?

   The HSA allows for pre-tax dollars to be set aside for qualified health care expenses, (as defined in IRS publication 502 available at irs.gov). You have a couple of ways to contribute to your HSA. You can make pre-tax contributions through payroll deductions. You can also make after-tax contributions directly to HealthEquity, the HSA administrator, that you can deduct on your tax return.

   The IRS sets limits on the amount that can be contributed to an HSA annually. For 2021, the contribution maximum is $3,600 if you enroll in employee-only coverage and $7,200 if you also enroll one or more dependents. If you are age 55 or older you can also make a catch-up contribution of up to $1,000. The annual limit includes contributions from all sources, including the 2021 $600 startup contribution. If you are not enrolled in the Advantage Plan for the entire calendar year, your contribution limit may be different. Health Equity can help you confirm your limit.

   HSA funds can be used to pay for current or future qualified health care expenses for you, your spouse and your IRS tax dependents. Withdrawals from your HSA used to pay for qualified health care expenses are not subject to federal taxes.

   Unused HSA funds are yours and carry over in your account from year to year; there is no "use-it-or-lose-it" rule with an HSA.

   The funds in the HSA belong to you. This is true even if you change employers or stop working.

3. How do I know if an HSA is right for me?

   Your personal situation will determine if the Advantage Plan with an HSA is right for you. As you evaluate your needs, consider your anticipated health care expenses, your current financial situation, and how much control you want over your health care spending.

   A Health Savings Account offers the following benefits:

   - You control the account. You determine how much to contribute to your HSA (up to the IRS maximum annual contribution limit), when and how to invest your contributions, and whether to take an HSA withdrawal to pay for current qualified medical expenses or let your contributions stay invested for future growth potential.

   - You can build a safety net now for future health expenses. Unlike a health care flexible spending account (FSA), an HSA is not subject to the use-it-or-lose-it rule. Any unused balance carries over each year allowing you to build your savings for future qualified health expenses.

   - Tax savings. When used for qualified medical expenses, HSAs offer a triple tax savings - contributions, any investment earnings, and withdrawals are federal tax free.

   - You can invest your Health Savings Account. Once you reach the minimum balance requirement of $1,000 you can begin to invest your HSA funds through HealthEquity. You can learn more about your investment options at healthequity.com/Reynolds or by calling a HealthEquity Account Mentor at 877-713-7682.

   - Portability. Your HSA always belongs to you, even if you change jobs or become unemployed, change your medical coverage, move to another state, or change your marital status.

   Still have questions? Contact Ayco at 866-416-1496 or HealthEquity at 877-713-7682 for more information about the advantages of an HSA.

4. How do I know if am I eligible to open and contribute to an HSA?

   Since the HSA is a tax-favored account, there are rules about who can participate.

   You are eligible to contribute to an HSA if you are enrolled in an HSA-eligible health plan like the Advantage Plan and meet other IRS requirements. If you are unsure if you qualify, talk to a tax advisor or consult IRS Publication 969 at irs.gov.

- You are not eligible to contribute to an HSA if you are covered by any other health insurance plan that is not a Health Saving Account qualifying plan. This includes a traditional Flexible Spending Account (FSA), including an FSA through your spouse's employer, a medical plan that is not an HSA-eligible health plan, Medicare (Part A or B) and Tricare.
- You are also not eligible to contribute to an HSA if you are claimed as a dependent on another person's tax return.
- You must be a U.S. resident who does not reside in Puerto Rico or American Samoa.
- You are not eligible to contribute if you are on active military duty or if you are a veteran who received veteran's benefits within the last three months.

If you open or contribute to an HSA and do not meet the above criteria, your contributions, any investment earnings, and withdrawals may be subject to income taxes, penalties, and/or excise taxes.

Enrolling in the Advantage Plan at RAI is your affirmation of your eligibility to participate in the HSA.

5. How do I open a HealthEquity HSA?

After you enroll in the Advantage Plan for the first time, HealthEquity will open an account on your behalf. Your HSA account will be established whether or not you elect to have pre-tax deductions taken out of your check each pay period. You can make contributions to your HSA as soon as the account has been established and you may take withdrawals from amounts contributed to your account at any time. However, only expenses incurred after your account was established may be submitted for reimbursement. Once your account is established, HealthEquity will send you a debit card for your HSA and a Welcome Kit that explains how your HSA works. You will have ongoing support by phone at 877-713-7682 and online at myHealthEquity.com to help you build and manage your savings.

By electing the Advantage Plan, you are confirming that you are eligible to make contributions to the HSA. See IRS Publication 969 at irs.gov, for all the rules on HSA contribution eligibility.

6. Are there any fees associated with opening a HealthEquity HSA?

RAI pays the monthly administrative fee for active employees. Once you are no longer an active employee, you will pay the monthly administrative fee.

7. Can I make a direct contribution to my HealthEquity HSA?

RAI is providing you the option to make pre-tax contributions through payroll deductions. If you decide to also, or instead, make contributions directly to HealthEquity for your HSA, contact a HealthEquity Account Mentor at 877-713-7682 for payment options. These direct contributions are deductible on your federal income tax return.

You are responsible for determining your maximum annual contribution amount and ensuring that your contributions, from all sources, do not exceed such amounts.

8. When do I choose my contribution amount, and can I change it at any time?

You can decide how much to contribute per paycheck at the time you enroll in the Advantage Plan. If you were enrolled in the Advantage Plan for 2020 that payroll election will carryover unless you revise it during Open Enrollment. Once 2021 begins you can revise your election any time. Your election can be made online at RAIbenefits.com or by calling the Alight Benefits Center at 866-342-6986. Any changes will become effective in the next payroll period after the change has been communicated by Alight to RAI. The timing of your deduction change is subject to payroll cutoff dates.

9. What happens to my HSA if I no longer participate in an HSA-eligible health plan like the Advantage Plan?

You can continue to use the money in your HSA account to pay for eligible health care expenses. However, you cannot make additional contributions to the HSA for any period in which you are not participating in an HSA-eligible health plan.

10. What is the federal tax treatment of HSA contributions, withdrawals and investment earnings?

Contributions

As an eligible employee enrolled in the Advantage Plan, you can make contributions on a pre-tax basis via payroll deduction to your HSA. The $600 startup contribution is also pre-tax. Any contributions made directly to HealthEquity are tax deductible (for federal income tax purposes), up to your maximum annual HSA contribution amount.

You are responsible for determining your maximum annual contribution amount and ensuring that your contributions do not exceed such amounts. If your contributions exceed the annual contribution limit they will be included in your gross income and will be subject to an additional excise tax unless withdrawn before the deadline (including any extensions) for filing your federal income tax return for the tax year in which they were made.

If you exceed your contributions limit, contact HealthEquity at 877-713-7682 for assistance.

Withdrawals from your HSA (including earnings)

Withdrawals will be tax-free (for federal and most state tax purposes) if used to pay for qualified health care expenses for yourself, your spouse and your tax dependents.

Withdrawals used to pay for expenses other than qualified health care expenses are considered taxable income and will be subject to a penalty. There are some exceptions to the penalty. Reach out the HealthEquity if you have questions.
As an HSA account owner, you must determine whether a medical expense is a qualified medical expense, and you should keep all receipts and records of medical expenses to show that withdrawals have been made exclusively for qualified medical expenses and are, therefore, excludable from your gross income.

11. Are HSA contributions and earnings subject to state taxes?

Tax laws regarding HSAs vary by state and are subject to change so it is always best to consult a tax professional about your specific situation.
At the present time the following states do not follow the federal treatment of Health Savings Accounts: California, New Hampshire and New Jersey.

12. Can I open and contribute to an HSA if I have a Health Care Flexible Spending Account (FSA)?

If you or your spouse is enrolled in a Health Care FSA, other than a Limited Purpose FSA, you are not eligible to contribute to an HSA.

13. Can I contribute to an HSA and still contribute to MedSave?

Yes, you can contribute to both MedSave and the HSA while actively at work at RAI.

However, once you leave the company, IRS rules prohibit you from making Health Savings Account contributions if you have a balance in MedSave. This applies even if you enroll in an HSA-eligible plan through another employer.

14. Will contributing to an HSA impact how much I can contribute to my 401(k)?

The 401(k) limits and the HSA limits are not connected. You can make contributions into both accounts up to the allowed limits of each plan.

15. What happens if I enroll in the Advantage Plan but have money left over in my 2020 RAI Health Care Flexible Spending Account (FSA) at the end of 2020?

If you have not spent your entire 2020 Health Care Flexible Spending Account election for eligible expenses during the 2020 calendar year, you will forfeit any remaining balance.

16. Can my spouse and I both have HSAs?

If you both enroll in HSA-eligible coverage and do not cover each other as dependents, you each may establish an HSA, provided you satisfy the other HSA eligibility requirements. Special rules apply when both spouses open an HSA. Please seek the advice of a tax professional or call Ayco at 866-416-1496 for more information. Information is also available in IRS publication 969 (available at irs.gov).

17. Can I use my HSA for my dependents' expenses?

You can use your HSA to pay for qualified health care expenses incurred by your dependents provided they are considered dependents for federal tax purposes. Please refer to IRS Publication 501, which can be found at irs.gov, for guidance regarding the definition of a dependent.

Your dependent does not have to be covered under your medical plan. However, if your dependent isn't covered under your plan, the expenses won't count toward your deductible or out-of-pocket maximum.

A child can be covered under the RAI Health Plans until the end of the month in which they reach age 26. However, unless they are a dependent for federal tax purposes, you cannot use your HSA money to pay for their medical expenses.

18. My Domestic Partner is covered on my insurance. Can I use my HSA for their medical expenses?

Unlike spouses, domestic partners do not automatically qualify for tax-free and penalty-free disbursements from their partner's HSA. If your domestic partner meets the IRS qualifications of a tax dependent, you can legally use your HSA funds for his/her medical expenses. If you are unsure if your partner qualifies as a tax dependent, talk to a tax advisor.