

Health Savings Accounts (H.S.A.)

Important Considerations

A H.S.A. is an employee's property and H.S.A. account holders are responsible for ensuring they meet the eligibility requirements for the pre-tax benefit as well as ensuring the funds are used to pay for qualified medical expense. The H.S.A. is separate from the medical high deductible plan and is a bank account used to help you pay for those expenses not covered by the plan with pre-tax dollars. Below provides an overview of the important requirements as well as some commonly asked questions. We encourage you to contact your tax adviser with specific H.S.A. questions as the impact of these accounts changes based on circumstances.

Eligibility

You must meet certain other requirements in order to participate in the HSA Contribution Feature. To be eligible, you must:

- (a) be covered by a High Deductible Health Plan;
- (b) not be claimed as another person's tax dependent;
- (c) not be actually covered by Medicare; and
- (d) not have any health coverage other than coverage under a High Deductible Health Plan, except permitted coverages. "Permitted" coverages include coverages for liability, accidents, disability, specific diseases, fixed indemnity, dental care, vision care, and long-term care, whether or not such coverage is sponsored by your Employer. Other coverage that will disqualify you from being eligible for the HSA Contribution Feature includes, but is not limited to, coverage under your spouse's health plan, coverage under your spouse's or your own general purpose flexible spending medical expense reimbursement account or health reimbursement arrangement.

Taxation and Penalties of H.S.A.'s

HSA money is tax-free as long as it is used to pay for qualified medical expenses. If you use the money for any other reason, you will be required to pay income tax and a 20% tax penalty on that amount (you will not pay a penalty if you are disabled or age 65 or older). It is up to you to keep the supporting records to show the Internal Revenue Service whether you used the funds to pay qualified medical expenses.

For tax filing purposes, H.S.A. contributions will appear on your W-2 as line item.

Changes to Your H.S.A. Contributions

You have the ability to change your contribution to the H.S.A. monthly. This may include:

- stopping pre-tax contributions when you no longer meet the eligibility requirements
- increasing your pre-tax contribution or
- decreasing your pre-tax contribution

Please contact the benefits department to make adjustments.

Distributions from Your H.S.A.

Money in your H.S.A. can be used to pay for a variety of healthcare-related expenses ranging from routine physicals to prescription drugs **for your qualified IRS tax dependents**. A full listing of eligible expenses can be found at: <http://www.irs.gov/pub/irs-pdf/p502.pdf>

Frequently Ask H.S.A. Questions

What is my HSA?

Your HSA is a health savings account (as defined under the Internal Revenue Code) established by you with a third party trustee/custodian (e.g., bank or insurance company) that is authorized to be the trustee of HSAs. Your Employer does not establish or sponsor your HSA. Furthermore, your Employer does not own your HSA; it is owned by you.

You may invest the funds in your HSA as allowed by the trustee/custodian of the account. Your Employer has no control of or responsibility for the investment of your HSA.

What are the limits on the amount of contributions?

The total contributions made by you and/or made on your behalf (i.e., contributions by your Employer) into HSAs owned by you are subject to a maximum contribution limit. Generally, the maximum contribution you may receive in a year is an indexed amount as follows: \$3,100 if you have self-only coverage or \$6,250 if you have family coverage (for 2012).

You are allowed to make or receive an additional —catch-up— contribution for the year in which you will attain age 55 before the end of the year and for any year thereafter while you remain eligible. The catch-up contribution is currently \$1,000 per year.

If you are eligible for contributions for only a portion of the year, your maximum contribution (including catch up contributions) is determined in accordance with the following rules:

(a) **Not Eligible on December 1st.** If you cease to be eligible for contributions prior to December 1st of a particular year, the contribution limit for that year will

be a fraction of the maximum contribution for the full year based upon the number of months in which you were eligible.

For example, if you have single coverage under a Qualifying High Deductible Health Plan, are not eligible for catch up contributions, but are eligible only during January through June (i.e., six months of the year), your maximum contribution limit is \$1,550.

(b) **Eligible on December 1st.** If you become eligible for HSA contributions during a particular year and you are eligible as of December 1st of that year, your maximum contribution for that year is the full indexed amount.

However, if you become ineligible for HSA contributions during the twelve (12) month period beginning with December of that year, you will not be entitled to the full maximum contribution. Instead, your maximum contribution will be a fraction of the maximum contribution for the full year based upon the number of months in which you were eligible during that year. The excess contributions will be included in your gross income and a 10% additional tax will be imposed on those contributions.

If you are married and both you and your spouse have coverage under a Qualifying High Deductible Health Plan, the lower annual deductible is used to determine the contribution limit. If both you and your spouse have health savings accounts, the limit is divided equally between you (unless you agree to a different allocation).

Rollover contributions may also be made to an HSA from another health savings account or from an Archer MSA. Rollover contributions are not subject to the contribution limit described above.

Frequently Ask H.S.A. Questions

What happens if my contributions exceed the contribution limit?

If the contributions to your HSA exceed the applicable maximum contribution limit for a year, generally the excess contributions will be included in your income and an excise tax will be imposed upon them. You will also be taxed on any earnings earned on the excess amounts. However, you can avoid the excess tax if you take a distribution of the excess contributions (and the net income attributable to the excess contribution) before the last day (including extensions) for filing your federal income tax return. This distribution must be included as taxable income when you file your taxes.

What are the tax consequences of the HSA Contribution Feature?

The contributions made under this HSA Contribution Feature will not be included in your gross income, unless they exceed the applicable maximum contribution limit as discussed above.

What are the rules regarding distributions from my HSA?

Your Employer has no control over or involvement with distributions made from your HSA. Your Employer does not substantiate expenses for which such distributions are made. Information regarding the procedure for obtaining distributions and the consequences of taking distributions is available from the trustee/custodian of your HSA.

When does my participation end?

Participation in the HSA Contribution Feature ends upon the earlier of the date your participation in Plan ceases or the date you no longer satisfy the eligibility requirements of the plan. You need not be a participant in the HSA Contribution Feature (or be employed by the Employer) in order to obtain distributions from your

HSA. In addition, you may make contributions to your HSA outside this Plan, provided you are eligible to do so under IRS rules, after you have left employment with the Employer or have ceased to be a participant in the Plan.

NOTE: This HSA Contribution Feature is **not** a group health plan for purposes of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA), the Family and Medical Leave Act (FMLA), and the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA). COBRA, FMLA, and USERRA do not apply to this HSA Contribution Feature. However, COBRA, FMLA, and USERRA may apply to the Qualifying High Deductible Health Plan.

Can the contributions made to my HSA be forfeited?

No, once the contributions have been deposited in your HSA, you will have a nonforfeitable interest in the funds. You will be free to request a distribution of the funds or to move them to another provider of HSAs, to the extent allowed by law.

What are the reporting requirements?

Your Employer is responsible for reporting contributions made to your HSA through this HSA Contribution Feature on your Form W-2. You are also responsible for reporting contributions to your HSA, and for reporting distributions from your HSA, on appropriate forms available from the IRS.

The intent of this analysis is to provide you with general information regarding the status of, and/or potential concerns related to, your current employee benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, nor is it intended to provide, legal or tax advice.

