Employee HSA Educational Guide

A Health Savings Account (HSA) works with a high deductible health plan (HDHP), and lets you set aside a portion of your paycheck—before taxes—into an account to help you pay for qualified medical expenses or that aren't covered by your plan. It can also help you plan for future medical expenses.

A Health Savings Account (HSA):

- **Is Yours** - Funds in your HSA account stay with you, even if you change jobs. And, if you're no longer covered by an HDHP, your account stays active and you can use remaining funds for medical expenses.

- **Reduces Your Taxable Income** - The money is tax-free both when you put it in, and when you take it out to cover qualified medical expenses.

- **Grows With You** - If you maintain a minimum balance of $1,000, your additional funds may be invested in mutual funds yielding tax-free earnings. In order to avoid monthly service fees, you must maintain an average monthly balance of $3,500 if you wish to invest in mutual funds.

- **Helps You Plan For The Future** - Until you turn 65, withdrawals used for eligible expenses are tax free. After you turn 65, or if you become disabled, your HSA account becomes similar to a regular IRA. Withdrawals you use for non-eligible expenses will be taxed at your regular income tax rate but won't incur additional penalties.

How it Works

You and your employer can deposit money into your HSA account up to an annual per person or family limit set by the IRS. You can use money in your HSA account to pay for insurance deductibles and medical care/supplies like dentistry, ophthalmology, and prescription drugs.

When you enroll, an account will be created for you at The Bancorp Bank. You'll be given access to a secure, easy-to- use web portal where you can track your account balance, view your investment accounts and submit requests for reimbursements. In addition, you'll be issued a HSA Debit Card you can use at point-of-sale to pay for qualified medical expenses.

You can request reimbursement distributions online for any purchases not made with your HSA Debit Card. Payment will be made based on your available funds. Distributions can be made payable to you or a provider.

How an HSA Saves You Money

Enrolling in an HSA can help you save money in several ways. Choosing a high deductible health plan helps you reduce your monthly insurance premiums. You can use these savings to fund your HSA account. Money you deposit into your HSA account isn't subject to federal income taxes, which means your take-home pay increases. You can use money from your HSA account to pay for qualified medical expenses not covered by medical insurance. Because that money isn't taxed, you could receive a 25% to 40% discount on these expenses. You can also invest HSA money in mutual funds and you won't be taxed on qualified withdrawals, interest, or growth.*

Savings #1 -- Your HDHP monthly premiums are lower. You (or your employer) pay lower premiums.

Savings #2 -- You contribute a federal tax-free amount each month. Your take-home pay increases by your tax rate.

Savings #3 -- You use your funds to pay for qualified medical expenses. You essentially get a 25% to 40% discount on medical expenses.

Savings #4 -- Your unused funds earn federal tax-free interest, and can be invested in mutual funds.* You don't get taxed on qualified withdrawals, interest, or growth.

Eligible Expenses

Expenses can be reimbursed from your HSA if the expenses are for the diagnosis, cure, mitigation, treatment or prevention of disease and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate or prevent a physical or mental defect or illness. Expenses solely for cosmetic reasons generally are not considered expenses for medical care. Also, expenses that are merely beneficial to your general health are not eligible.

The list below shows common examples of qualified medical expenses. Complete lists of eligible and non-eligible expenses can be found in IRS Publication 502, which can be ordered from the IRS by calling 1-800-TAX-FORM (1-800-829-3676) or by visiting www.irs.gov.

According to the Internal Revenue Service, HSA's can be used to pay for:

1. Eligible Medical Expenses (see example list on next page and IRS Publication 502)
2. Health Insurance Premiums under cobra continuation coverage
3. Health Insurance Premiums while receiving unemployment compensation
4. Medicare part A or part B premiums
5. A qualified Long Term Care Insurance Contract

Examples of Qualified Medical Expenses Eligible for HSA Reimbursement

- Acupuncture
- Alcoholism treatment
- Ambulance
- Anesthetists
- Birth control pills (by prescription)
- Blood tests
- Braces
- Chiropractor
- Contact lenses
- Contraceptive devices
- Crutches
- Dental treatment
- Dentures
- Dermatologist
- Drug addiction therapy
- Drugs (prescription)
- Eyeglasses
- Guide Dog
- Gynecologist
- Hearing aid and batteries
- Hospital bills coverage
- Insulin treatments
- Lab tests
- Lead paint removal
- Lodging (away from home for outpatient care)
- Metabolism tests
- Nursing (including board and meals)
- Obstetrician
- Operating room costs
- Ophthalmologist
- Optician
- Oral surgery
- Oxygen and oxygen equipment
- Pediatrician
- Physician
- Postnatal treatments
- Premiums for long-term care insurance
- Premiums for COBRA
- Premiums for insurance received while receiving unemployment compensation
- Prenatal care
- Prescription medicines
- Psychiatrist
- Special school costs for the handicapped
- Sterilization
- Surgeon
- Telephone or TV equipment to assist the hearing impaired
- Therapy equipment
- Transportation expenses (relative to health care)
- Vaccines
- Vasectomy
- Vitamins (if prescribed)
- Wheelchair
- X-rays

Eligibility Restrictions

- If you are claimed as a dependent on someone else's taxes or are covered by any other health insurance policies that are not considered HDHPs, including Medicare and unlimited Flexible Spending Accounts, you are not eligible for an HSA.

- If you participate in an unlimited FSA or HRA through your employer or your spouse's employer, you are not eligible for an HSA.

- You and your spouse can each have an HSA if you both have high deductible coverage. If you have family HDHP coverage, the maximum contribution is split equally unless you and your spouse agree on a different division.

Reimbursement

- You don't have to submit receipts to receive your reimbursement. However, you need to keep receipts and documentation for each year's federal tax return (Form 8889 attached to Form 1040).

- You can make a withdrawal at any time. Reimbursements for qualified medical expenses are tax-free. If you are disabled or reach age 65, you can receive non-medical distributions without penalty, but you must report the distribution as taxable income. You may also use your funds for a spouse or dependent not covered under your HDHP.

Using an HSA with an FSA

As long as the FSA (Flexible Spending Account) is limited to dental, vision and/or preventive care expenses, you can have an FSA with the HSA. This type of FSA typically is called a Limited Purpose FSA.

Using an HSA with an HRA

There are three different types of HRAs that will work alongside an HSA:

1. An HRA that is limited to dental, vision and/or preventive care expenses.
2. An HRA that may only reimburse expenses after the HDHP deductible is met.
3. A Retiree HRA that can only reimburse once an individual retires. With a Retiree HRA, an individual is no longer eligible for an HSA after retirement when they have access to their Retiree HRA funds.

Timing

- You're eligible to begin an HSA plan starting on the first day of each month. If you get HDHP coverage mid-month, your HSA eligibility starts on the first of the following month.

- An HSA must be set up and the contributions must be made by your tax return due date for the year, not including extensions.

Status Changes

- If your HDHP coverage changes from single to family, the contribution can be increased on a prospective basis. In the months where you're covered under a family plan, you're allowed to increase your contributions.

- If your HDHP coverage changes from family to single, you will need to adjust the contribution on a prorated basis to ensure you do not exceed your deposit limit.

- The transfer of your interest in your HSA under a divorce or separation agreement is not taxable. Your recipient spouse or former spouse can continue to avoid taxation on the account as long as it's maintained as an HSA.

Transfers

- You can easily transfer an existing HSA balance or rollover an Archer Medical Savings Account (MSA) balance.

- To avoid taxation, a rollover must be completed within 60 days from the date of constructive receipt. You can only make one rollover every 12 months.

Beneficiaries

If your spouse is your beneficiary, your HSA will be treated as their account after your death. If you choose someone other than your spouse as your beneficiary, the account stops being an HSA, and the fair market value of the account becomes taxable to your beneficiary.

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- Summary plan description supersedes any information found in this employee benefits presentation.
- This is only a partial illustration or overview of the policy and is not a legal document
- Eligible medical expenses for HSA's are defined in section 213(d) of the Internal Revenue Code. A complete list is available from the IRS in publication 502 (medical and dental expenses) by visiting www.irs.gov and searching Publication 502