



An Introduction to Health Savings Accounts

For Employers

\$1 Billion FDIC Insured Bank
Customer Service Reps

Available to answer customer questions

9:00 am – 4:30 pm CST

888.343.4422

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HSA Background

- **Introduced in 2004 to support Consumer Driven Health Care**
 - Provide consumers greater control over health care dollars
 - Reduce health care costs by putting consumers in charge
 - Give employers struggling to pay health care insurance a lower cost alternative and to encourage employers that do not offer health insurance to do so

- **Benefits to Employers**
 - Provide employers an alternative to traditional health care coverage
 - **Lower initial cost and lower annual cost increases**
 - Cover employees for catastrophic health issues
 - Offer employees a health plan that gives them choices

- **Explosive Growth in 2005**
 - Over 3,000,000 people had HSAs by January 2006¹
 - 15-25 million HSAs expected by 2010³

- **Initial Results Positive**
 - HSA owners are more value conscious of health care expenses⁴
 - HSA owners engage in improved wellness behavior
 - HSA insurance plans are not increasing in cost as much as other plans

¹HSA's Triple in 10 Months, Study released by America's Health Insurance Plans (AHIP) January 26, 2006

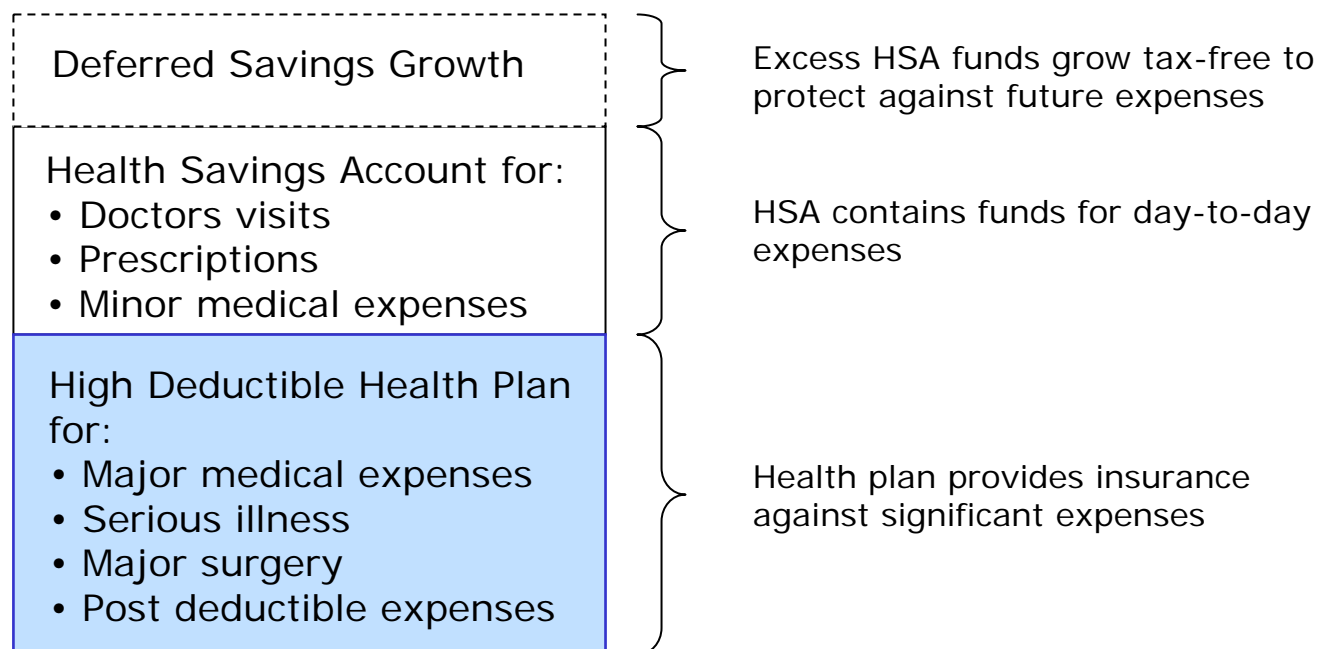
²HSA Deposits Top \$460 Million, ICDC Finds; 50,000+Accounts Are Opened Each Month, Inside Consumer Directed Health Care, Vol. 3, #9, May 2005.

³Seizing the HSA Opportunity, Study by Diamond Cluster Research 2005

⁴Consumer-Directed Health Plan Report – Early Evidence is Promising, McKinsey & Company, June 2005

How does an HSA work?

HSAs work in combination with a High Deductible Health Plan (HDHP), also referred to as “catastrophic” insurance or major medical. The HSA pays for the day-to-day medical expenses while the HDHP pays for major expenses (above the deductible amount). The law is designed so that you can put roughly the amount of your deductible in your HSA – see the next slide for details.



What's a High Deductible Health Plan?

- **High Deductible Health Plan (HDHP).** Employees must be covered under an HDHP plan to qualify for an HSA. Ask your insurance provider if your plan qualifies. Generally, HDHPs require a minimum annual deductible and place a limit on the total out-of-pocket payments allowed:

HDHP Requirements	Individual	Family
Annual Deductible	At least \$1,000 for 2005 At least \$1,050 for 2006	At least \$2,000 for 2005 At least \$2,100 for 2006
Out-of-Pocket Max	Not more than \$5,100 for 2005 Not more than \$5,250 for 2006	Not more than \$10,200 for 2005 Not more than \$10,500 for 2006

- **No Other Insurance allowed – Except “Permitted” Insurance.** To prevent people from obtaining the benefits of an HSA while protecting themselves with other health insurance plans, the law restricts the other coverage you may have. Listed below are some of the big exceptions:
 - Auto and life insurance
 - Accident insurance
 - Insurance for a specific disease or illness
 - Insurance that pays for a fixed amount per day for hospitalization

What are the benefits of an HDHP and HSA?

- **Lower Insurance Premiums.** Insurance premiums for high deductible plans are lower than premiums for more traditional forms of insurance because the deductible is higher, therefore the employee is taking on more of the initial cost of the insurance.
 - EX: A medical doctors office recently decided to see how much they could save by simply adding an HDHP to their health care plans, **this company stood to save almost \$1,000 annually per individual and nearly \$3,000/yr per family plan** that switched to the HDHP.
- **Broader Healthcare Alternatives.** HSAs provide employees with an unlimited choice of medical providers because they are not as locked into a particular network. Additionally, HSA funds can be used to pay for employee wellness (obesity and smoking cessation), dental, vision and even alternative care providers such as chiropractors.
- **Employee Safety Net Between Jobs.** For employees covered under a group high deductible plan, the HSA can be used to pay for COBRA while unemployed and also used to pay for medical expenses.
- **Tax Savings.** Employers that establish Section 125 plans to allow employees to make payroll contributions to their HSAs will save approximately 8% via reduced payroll taxes on the contributions and employees making contributions will save between 15-40% by avoiding Federal (and possibly state) Income Taxes and FICA and FUTA on their contributions.

Can all my employees have an HSA?


Click on form or follow hyperlink for more details

■ General HSA Requirements

- Covered under an HDHP
- Not be covered under another health plan
 - For example, if spouse has a traditional plan that also covers your employee, the employee is not eligible.
- Not a dependent on another's tax return
 - For example, children are generally not eligible.
- Under age 65 (or not covered by Medicare)
 - Employees over age 65 are generally not eligible.

■ Eligibility Worksheet - The Eligibility and Contribution worksheet to the right can help your employees determine if they are eligible.

HSA Eligibility and Contribution Worksheet



Purpose: Use this form to verify your eligibility for an HSA and determine the amount you may contribute. You are responsible for properly determining your eligibility and contribution amount. This worksheet is simply a tool to aid you in that effort. If you have any questions, please consult with your tax or legal counsel.

1 HSA Eligibility. You must answer "True" to each of the following in order to be eligible for an HSA. See definitions on back for help.

a. I am covered under an HDHP	True	False	<div style="border: 1px solid black; padding: 5px; width: 20px; height: 60px; margin: 0 auto;"> Not Eligible </div>
b. I am not covered by another non-HDHP health plan other than "permitted insurance"	True	False	
c. I am not eligible for Medicare (age 65) or if I am eligible, I am not enrolled in Part A or B.	True	False	
d. I am not a dependent on another person's tax return	True	False	

2 Contribution Amount. Use the table below to determine your amount.

Contribution Worksheet	Individual	Family
A Your HDHP Deductible Amount*		
B Federal Limit	\$2,650 (2005)	\$5,250 (2005)
C Annual Contribution Amount - Insert Lesser of A or B (add catch-up if age 55-65 - \$600 for 2005**)		
D Divide C by 12 = Monthly contr. Eligibility		
E Insert # of months eligible in the calendar year***		
F Total Contribution Amount - Multiply D times E		

} Calculate here or use the table on back

The Total Contribution Amount may be split among multiple HSAs. For family coverage, the amount may be split between eligible spouses' HSAs. Your actual eligibility for the HSA begins the date you start HDHP coverage. You may contribute the Total Contribution Amount upon establishment of your HSA, however, if your eligibility changes you may have to remove contributions for months when you were not eligible.

*Check your insurance policy and see "Determining your Deductible Amount" on the back of this form for more detail.

**If you are age 55-65, add \$600 to the amount for 2005 contributions. See "Catch-up Contributions" on the back of this form for more detail.

*** HSA contribution amounts are determined on a monthly basis and then aggregated. To determine how much you may contribute, you must determine the number of months you were covered by a HDHP as of the first day of that month. Then add the number of months eligible in a calendar year for Row E. See the "Contribution Chart" on the back of this form for an automated process.

Caution: Employer contributions made to your HSA count towards your total contribution amount but may not be deductible from your personal income.

3 Open an HSA. Go to www.HSAResources.com and complete a short Application and send it to HSA Resources, PO Box 7338, St. Cloud, MN 56302. Account opening questions? Call 888-343-4422

©HSA Resources, LLC 2005 Eligibility Worksheet 8/29/05 v1.2

http://www.hsaresourcesbank.com/pdf/HSA_Resources_Eligibility_Contribution_Worksheet_2006.pdf




Can employers make HSA contributions?

Employers can make pre-tax contributions into employees HSAs subject to “comparability” rules. See the next slide for employee payroll deferrals.

- **Comparable Contributions.** An employer can make “comparable” contributions on behalf of all eligible employees.
- **Same Amount or % of Deductible.** Contributions are “comparable” if they are the same dollar amount or the same percentage of the deductible for the HDHP.
- **Categorize Employees.** Employers are allowed to treat different categories of employees differently:
 - Part time v. full time
 - HSA eligible v. not eligible
 - Single v. family
- **35% Penalty.** Failure to comply with these rules can result in a 35% penalty.

Call us with questions, we offer a free employer consultation to review issues such as “comparability”

HSA Employer Comparability Worksheet



Purpose: Use this form to gain an understanding of the “comparability” rules for employer contributions. Employers subject to comparability testing (section 1) are required to treat like employees (section 2) similarly (section 3). You (the employer) are responsible for properly determining whether the HSA contributions meet the rules. This worksheet is a tool to aid you in that effort, but it is not advice. If you have any questions, please consult with your tax or legal counsel. Use the back of this form for details (p.2).

1 Are You Subject to Comparability Testing? You are only subject to the comparability rules if you make pre-tax contributions for your employees outside of a Section 125 Cafeteria plan. Is it your intent “Yes” to the following questions. Do you offer an option to elect for HSA contributions? Yes No Not Subject to HSA Comparability Testing

2. Will you make the HSA contributions outside of a Section 125 plan? Yes No Not Subject to HSA Comparability Testing

2 Have You Properly Categorized Employees? Employees are allowed to treat different “categories” of employees differently for HSA contributions. See Table. Employers must treat employees within the same category “comparably” – see section 3 below. Usually, the categories are full-time, part-time and former employees. However, it is appropriate to look at eligibility for an HSA (see [HSA Eligibility](#) [Worksheet](#)) type of coverage under a HDHP (single v. family), and whether the employee is covered through an employer provided HDHP in a similar manner to the other categories. Important: see p. 2 for details on all categories.

Allowed Categories	Not Allowed
Part Time v. Full Time	Management or not
Careful v. Former	Age Based
HSA Eligible v. Not Eligible	Union v. Non-Union
Single HDHP Coverage v. Family HDHP Coverage	Wellness Plan Participation Based
Employer Provided HDHP v. Other	Job Class

3 Are You Making Comparable Contributions? See [www.hsaresources.com](#) for more examples. You must make “comparable” contributions to employees falling within the same categories from Step 2.

Example 1: Employer contributes \$1,000 on behalf of all employees with comparable HDHP coverage. This meets the comparability test.

Example 2: Employer offers two different HDHP plans with different deductibles. Plan A with \$1,000 deductible and Plan B with a \$2,500 deductible. The employer can contribute either the same amount to those covered under Plan A and B, say \$1,000, or the same percentage of the deductible, for example, \$1,000 (50%) for Plan A employees and \$1,250 (50%) for those in Plan B.

Example 3: Employer contributes \$100 per month to each employee who is eligible under the HDHP. In March, Jane quits after her employer contributed \$300 to her HSA. Employer stops additional contributions for Jane. In June, Sara begins employment. In July employer begins contributing \$100 per month for Sara and contributes a total of \$300 for Sara. The worked for employer for entire year and received \$1,200 in HSA contributions. Employee made comparable contributions.

Example 4: Same facts as Example 3, except that the employee quits and the end of the year to contribute rather than on a month-to-month basis. This meets the test. Note: the employer may have to pay employees that quit.

35% Penalty for Failing To Comply. **Example:** Consider an employer that evenly contributed \$1,000 to 10 employees and only \$200 to another 10 employees. That’s a total HSA contribution of \$10,000 v. \$2,000 = a potential fine of \$1,250.

4 Open Employee HSAs. Confused? Don't worry, HSA Resources can answer your questions. We have experts available to help with difficult questions, call 866.757.4727, ext. 4. Ready to open an employer plan? Just complete the [Employer Contribution Form](#) and mail it to us along with a completed [W-9](#) for each employee. HSA account opening questions? Contact a customer service representative at 866.343.6422 or e-mail at employee@hsaresources.com.

Page 1 of 2 ©HSA Resources, LLC 2005 Employer Comparability Worksheet 1055005

Can employees contribute through payroll?

Employees can contribute through payroll deferral if you offer a Section 125 plan.

- **Pre-Tax.** If the employer has or establishes a Section 125 plan that provides for HSA contributions, the employer can allow contributions into the HSA through the Section 125 plan on a pre-tax (federal income taxes) as well as pre-FICA/FUTA.
 - **15.3% FICA/FUTA Savings.** A Section 125 plan allows employers to save 7.65%, the employer's half of the payroll taxes, and the employees save their 7.65% as well. This can be a significant savings and well worth establishing a Section 125 plan. In many cases, it pays for the cost of the Section 125 plan.
 - **No Comparability Testing.** HSA contributions made pursuant to a Section 125 plan are not subject to comparability testing. This means that different employees can contribute different amounts.
 - **Insurance Premiums.** A Section 125 plan will also allow employees to pay any employee portion of the insurance premium on a pre-tax, pre-FICA/FUTA basis.
 - **Section 125.** If you need a plan, let us know we can set one up for you.
 - **State Taxes.** Most states also allow for HSA contributions on a pre-tax basis, but not all.
- **After-Tax.** Employers can also allow payroll deferral on an after-tax basis. This method is treated the same as if you paid the employee and the employee put the money into the HSA on his or her own. The benefit to the employee is the administrative convenience and the automatic nature of savings.
- **On Their Own.** Employees can also contribute independent of the employer, by (1) simply writing a check or (2) through automatic contribution from the employee's personal bank account.

How do employers contribute?

- **Employer Contribution Spreadsheet.** The employer simply sends us a spreadsheet showing the employee allocations. Employers can do this by using our PDF form (shown), an Excel spreadsheet available on our web site, or using their own spreadsheet.
- **Check.** The employer can write a check and send that along with the spreadsheet. An employer can do this just once to get the employees started, annually, or monthly.
- **ACH.** The easier way to set up employer contributions is automatically through the ACH system. We collect the employer's bank routing information and debit the employer's account for the amount.
- **Changes/List Bill.** The employer is responsible for providing a new spreadsheet either with each contribution or anytime there is a change. For employers that desire a reminder, we offer a List Bill service, where we will send a monthly reminder of the amount and the allocation.

Click on form or go to www.hsaresources.com

HSA Employer Contribution Form

HSA RESOURCES BANK
Health Savings Accounts Made Easy
 PO Box 7338 St. Cloud, MN 56302 888-343-4422
HSAResources.com

This form is for employers to make initial and subsequent HSA contributions on behalf of employees. An employer may do so by check, payable to HSA Resources Bank, or by automated direct debit from the employer's financial institution. Each employee must set up an HSA with HSA Resources Bank.

- 1 Employer Information.**

Company Name Tax ID #

Contact Person Phone

Street Address City State Zip
- 2 Direct Deposits.** Please include banking information for direct deposits.

Bank Name Account #

Routing and Transit Number (Attach copy of voided check)
- 3 Contribution Information.**

A. Type of payment.

a. Initial Payment will be made by check or ACH direct deposit.
 b. Subsequent payments will be made by check or ACH direct deposit.

B. Contributions will be Employer Funded, Employee Funded, or Both Employer and Employee Funded

	Employee Name	Account Number (Completed by Bank)	Initial Set Up Fee Plus Initial Annual	Contribution Amount (less fees from previous column)	
				Employee	Employer
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
Total Fees					
Total Contributions					
Total Deposit Amount					

Please use separate spreadsheet for more employees.

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How much can employees contribute?

Click on form or follow hyperlink for more details

■ General guidelines

- Employees may contribute the lesser of:
 - (1) the HDHP Deductible Amount and
 - (2) \$2,700 for 2006 for individuals (\$2,650 for 2005) and \$5,450 for families (\$5,250 for 2005)
- PLUS Catch-up Contribution of \$700 for those age 55-65 (\$600 for 2005)
- Prorated for those not covered by an HDHP for the entire year

■ Contribution Worksheet. The Eligibility and Contribution worksheet to the right can help employees determine how much they can contribute.

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HSA Eligibility and Contribution Worksheet

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1 HSA Eligibility. You must answer "True" to each of the following in order to be eligible for an HSA. See definitions on back for help.

a. I am covered under an HDHP	True	False	Net Eligible
b. I am not covered by another non-HDHP health plan other than "permitted insurance"	True	False	
c. I am not eligible for Medicare (age 65) or if I am eligible, I am not enrolled in Part A or B.	True	False	
d. I am not a dependent on another person's tax return	True	False	

2 Contribution Amount. Use the table below to determine your amount.

Contribution Worksheet	Individual	Family
A Your HDHP Deductible Amount*		
B Federal Limit	\$2,650 (2005)	\$5,250 (2005)
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D Divide C by 12 = Monthly contr. Eligibility		
E Insert # of months eligible in the calendar year***		
F Total Contribution Amount - Multiply D times E		

} Calculate here or use the table on back

The Total Contribution Amount may be split among multiple HSAs. For family coverage, the amount may be split between eligible spouses' HSAs. Your actual eligibility for the HSA begins the date you start HDHP coverage. You may contribute the Total Contribution Amount upon establishment of your HSA, however, if your eligibility changes you may have to remove contributions for months when you were not eligible.

*Check your insurance policy and see "Determining your Deductible Amount" on the back of this form for more detail.

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Caution: Employer contributions made to your HSA count towards your total contribution amount but may not be deductible from your personal income.

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http://www.hsaresourcesbank.com/pdf/HSA_Resources_Eligibility_Contribution_Worksheet_2006.pdf

1,2 2005 amounts



How do employees get the tax benefit?

■ Contributions

- **Payroll deductions.** Employers must report contributions on the W-2. Pre-tax amounts are not included as income as the W-2 so the employees cannot deduct the amount. (Most states also allow state tax deductions for HSAs – but not all)
- **Personal contributions.** Amounts contributed directly by employees (including after-tax payroll deferral amounts), may be taken as an “above the line” deduction (federal taxes). Meaning the employees do not have to itemize to get the tax benefit. (No FICA/FUTA benefits)


■ HSA Account

- Earnings growth in the HSA are tax-exempt
- Distributions are tax-free when used for qualified medical expenses

- **Tax Savings Worksheet** - The Tax Savings Worksheet to the right can help your employees estimate potential tax savings.

Click on form or follow hyperlink for more details

HSA Tax Savings Worksheet



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Purpose: This Tax Guide provides an estimate of your personal HSA tax savings. You are ultimately responsible for understanding your tax situation and you should consult with your tax or legal counsel for specific questions.

- 1 Income Tax Savings.** The amount contributed to your HSA may be eligible for federal and state tax deductions. Complete the chart below to estimate your tax savings.

A. HSA Contribution Amount – Enter the amount you intend to contribute to your HSA in Section A. Use HSA Resources’ [Eligible and Contribution Worksheet](#) to determine your maximum amount.

B. Federal Tax Rate – Use the Federal Tax Table below to determine your marginal Federal tax rate based on your “taxable” income and enter it in Section B (see pg 2 of this form for additional details).

2005 Federal Tax Table*			Marginal Tax Rate
Single	Married Filing Jointly	Married Filing Separately	
\$0-\$7,000	\$0-\$14,000	\$0-\$7,000	10%
\$7,001-\$29,700	\$14,001-\$59,400	\$7,001-\$29,700	15%
\$29,701-\$71,950	\$59,401-\$119,900	\$29,701-\$71,950	25%
\$71,951-\$160,150	\$119,901-\$320,300	\$71,951-\$160,150	28%
\$160,151-\$326,450	\$320,301-\$652,700	\$160,151-\$326,450	33%
\$326,451 +	\$652,701 +	\$326,451 +	35%

C. Federal Tax Savings - Multiply your HSA Contribution (A) by your Federal Tax Rate (B) and enter the result in Section C.

D. State Tax Bracket - You may also be eligible for an HSA state income tax deduction. If your state has an income tax and allows you to deduct your HSA contribution, then enter your personal State Tax Bracket in Section D. States that provide for an HSA tax deduction include: AZ, CO, CT, DE, GA, ID, IL, IN, IA, MD, MI, MN, MO, NE, NM, NY, ND, OH, OK, OR, UT, VT, WV.

E. State Tax Savings - Multiply your HSA Contribution (A) by your State Tax Rate (D) and enter the result in Section E.

F. Total Income Tax Savings - Add the Federal Savings (C) and the State Savings (E) to get an estimate of your Total Tax Savings.
- 2 Other Tax Benefits** You may also obtain other tax benefits from owning an HSA.

A. Tax Deferred Earnings. Earnings on HSA assets are not subject to tax and are allowed to grow tax-free while held within the HSA. This works similar to investments in other tax-deferred plans like 401k or IRA plans.

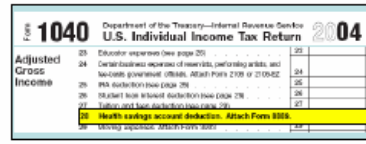
B. FICA and FUTA Tax Savings - Employer contributions made to your HSA or contributions made through an employer provided Section 125 Cafeteria Plan are eligible for additional tax savings. These HSA contributions are not subject to taxes for Social Security and Medicare taxes, FICA, (6.2% for individual plus another 6.2% for the employer) or Federal Unemployment Taxes, FUTA, (1.45% for individuals plus another 1.45% for employers), providing an additional 7.65 % tax savings for you and for your employer.
- 3 How it works, Federal Tax Deduction for HSAs.** Either your HSA contribution is never counted as income to you or you may deduct your eligible HSA contribution directly on your tax return.

A. Employer HSA Contributions. Generally, employer contributions are not considered income to you because the contribution is made pre-tax and not included on your W-2.

B. Non-Employer HSA Contributions. Your HSA as a direct deduction from your Adjusted Gross Income, this means that every dollar contributed reduces your taxable income. You do not have to itemize your taxes to receive this benefit.

1040 Department of the Treasury - Internal Revenue Service

2004 U.S. Individual Income Tax Return


- 4 Open your HSA.** Go to www.HSAResources.com, complete the short Application and send it to: HSA Resources, PO Box 7338, St. Cloud, MN 56302. Account opening questions? Call 888.343.4422

©HSA Resources, LLC 2005 Tax Savings Worksheet 9/26/05

http://www.hsaresourcesbank.com/pdf/HSA_Tax_Savings_Worksheet.pdf

What medical expenses are covered?

■ Most medical expenses covered

- Doctor visits
- Hospital expenses
- Prescription drugs
- Optical care
- Dental

■ Who is covered

- The employee (self)
- Spouse and dependents (regardless of whether they are covered under your insurance plan – the HSA can be used for a spouse even if covered under a different health plan)

- **Qualified Medical Expense Listing.** The Listing to the right can help you employees determine which expenses are qualified and which are not. The list is on the Employee Resource Center.

Click on form or follow hyperlink for more details

<u>QUALIFIED MEDICAL EXPENSES</u>	
- Abortion	- Neurologist
- Acupuncture	- Nursing services
- Alcoholism treatment	- Out-of-pocket expenses for your spouse/dependent
- Ambulance services	- Obstetrician
- Anesthetics	- Operating Room expenses
- Artificial limbs	- Operatloris (except cosmetic)
- Artificial teeth	- Ophthalmologist
- Bandages	- Optician
- Birth control pills (by prescription)	- Oral Surgery
- Breast reconstruction surgery (mastectomy)	- Orthopedic Shoes
- Blood tests	- Orthopedist
- Braces	- Osteopath
- Braille books/magazines	- Oxygen (for equipment to relieve breathing problems)
- Car modifications req'd for accessibility	- Pediatrician
- Cardiograms	- Physician
- Chiropractor	- Postnatal treatments
- Christian Science Practitioner	- Prenatal care
- Contact lenses (including cost of materials)	- Prescription drugs
- Contraceptives	- Prosthesis
- Crutches	- PSA test
- Dental treatment (except cosmetic treatment)	- Psychiatric care
- Dermatologist	- Psychoanalysis
- Diagnostic devices and fees (includes expenses related to diagnosing and treating illness such as blood sugar tests for diabetics)	- Psychologist
- Disabled dependent care	- Registered nurse
- Drug addiction therapy (covers inpatient treatment including meals and lodging)	- Spinal fluid test
- Eyeglasses (including exam fees)	- Splints
- Eye surgery (includes laser eye treatments)	- Sterilization
- Fertility treatments	- Stop Smoking Programs (except non prescription drugs)
- Guide dogs	- Surgeon
- Gynecologist	- Therapy
- Hearing aids	- Transplants
- Hospital services	- Transportation essential to medical care
- Insulin	- Vaccines
- Insurance premiums (only if receiving unemployment benefits)	- Vasectomy
- Laboratory tests	- Vision correction surgery
- Lead based paint removal (only removal, not repainting)	- Weight loss programs (only amounts related to treatment for specific diseases)
- Legal Fees req'd to mental illness treatment	- Wheelchairs
- Medical Services	- X-rays
- Medicines (prescribed)	
- Non-prescription medicine (insulin)	

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<http://www.HSAResourcesbank.com/faq.php#2b>

Can the HSA be used for other purposes?

Click on form or go to www.hsaresources.com

- **Savings Rolled Over.** Unused funds remain in the HSA and continue to grow, tax-free, year after year.
- **Pay COBRA if you become unemployed.** Employees that separate from service may pay for COBRA insurance premiums through their HSA.
- **Long term care insurance.** Subject to certain limitations, the HSA can be used to pay for long term care insurance.
- **Pay insurance premiums at age 65.**
- **Use as Retirement Fund at Age 65.** At age 65, you can take money out of the HSA for non-medical reasons without penalty.

The Distribution Worksheet gives your employees a step-by-step guide to determine how they can use their HSA and what are the consequences.

HSA Distribution Worksheet



Purpose: Use this worksheet to guide you in determining the federal income tax consequences of HSA distributions. Please consult with your tax or legal counsel for questions. See page 2 for more details.

- 1 Is your distribution for an "eligible" medical expenses?** The primary purpose of an HSA is to use the funds to pay for the health care expenses of yourself and dependents. Distributions for eligible medical expenses are tax-free and penalty-free.
- a. **Was the expense incurred by yourself or a family member?** HSA funds may only be used for yourself, your spouse and your dependents. Note: there is no requirement that you or your family member be currently covered by a HDHP. Coverage under a HDHP is only important when contributing to an HSA, not in being allowed to use the funds. See [HSA Resources Eligibility and Contribution Worksheet](#) for detail on contributing to an HSA.
 - b. **Was the expense incurred after the HSA was established?** You must open your HSA before you incur the medical expense. This is a good reason to open your HSA when your policy becomes effective. Once your HSA is open you can use your HSA funds to pay for eligible medical expenses incurred now or in the future. You can even pay for current expenses out of future contributions or reimburse yourself for eligible medical expenses that you paid for with other funds, just reimburse yourself via the ACH feature of your HSA Resources account or write yourself a check.

Example: you incur a \$2,000 eligible medical expense this year but only have \$500 in your HSA. You can pay \$500 out of the HSA and the other \$1,500 out of other funds. You can then pay yourself back with future year HSA contributions (provided you remain eligible to make HSA contributions).

- c. **Is your expense Eligible?** Most traditional medical expenses such as doctor visits and prescriptions are covered, see page 2 for a list of eligible expenses.

Note: HSA Resources does not review your medical expenses for eligibility. You should save receipts and keep a tax record in case of an IRS audit. Use the [HSA Resources Medical Expense Tracking Sheet](#) for this purpose.

2 Does your distribution qualify for another tax-free and penalty-free exception?

Long-term Care	Long-term care insurance is an eligible expense subject to dollar limitations – see page 2.
COBRA Benefits	Paying for COBRA continuation health benefits with your HSA is tax-free and penalty-free.
Insurance premiums	Health coverage for an HSA owner that has attained the age of 65 is an eligible medical expense.
Medicare Premiums	Where premiums for Medicare are deducted from Social Security benefits, an HSA distribution to reimburse the Medicare beneficiary equal to the Medicare premium deduction is a qualified medical expense.
Rollover/Transfer	A rollover or transfer to another HSA is not taxed or penalized so long as the rollover is completed within 60 days and you have not completed another rollover within the previous 12 months.

3 Does your distribution qualify for a taxable, but penalty-free exception?

Age 65 or over	Non-medical distributions after age 65 are not penalized but are taxable (similar to IRAs and 401(k)s)
Death/Inheritance	Distributions to named beneficiaries of HSAs are not penalized but are taxed. Spouse beneficiaries can treat the HSA as their own and are not subject to tax or penalty – see page 2.
Disability	Distributions taken by disabled persons are not penalized.

4 If you do not meet any of the above you are subject to taxes plus a 10% penalty.

See back (p.2) for additional exceptions and distribution reasons.

Example: a 25 year old takes a \$1,000 distribution from his HSA to pay for a new motorcycle for recreation. The motorcycle is not an eligible medical expense so the \$1,000 distribution is taxable and subject to a 10% penalty (\$1,000 x 10% = \$100). Non-eligible distributions are reported on IRS Form 8889 along with your income tax return.

5 Confused about a distribution? Need an HSA? Don't worry, HSA Resources can help. For questions, contact a customer service representative at 888.343.4422. To open an account [click here](#), complete the application and send it along with your initial deposit to HSA Resources, P.O. Box 7338, St. Cloud, MN 56302.

How does the employer administration work?

Click on form or go to www.hsaresources.com

■ Limited Employer Involvement.

- **No Review of Claims.** The employer is not responsible to review employee receipts or claims.
- **No Reimbursement Checks.** Employers are not responsible to reimburse employees for eligible medical expenses.
- **No Liability for Wrongful Distributions.** Employers are not liable if an employee uses funds for non-eligible expenses.
- **Contributions.** Employers are not required to make HSA contributions, but if you do, you do need to follow rules (see previous slides).

■ HSA Resources Provides:

- Government Reporting
- Statements to Employees
- Account balance recordkeeping



Welcome Services Forms Accounts Agents Contact

Employer HSA Resource Center

Open An Account

Employer Links

Overview
Education
Enrollment
Administration
Forms
Tools
FAQs

Employee Links

Overview
Education
Forms
Tools
FAQs

Contact Us

p. 866.757.HSAs (4727)
f. 320.323.4488
e-mail

Employer Overview

Welcome to the Employer Resource Center. You can find everything you need here to understand, establish and maintain Health Savings Accounts. Before we dive into an overview of HSAs (below), we want to point out this Center's key features for employers:

- **Education** - a variety of materials to help you better understand HSAs; including: education materials, a proposal detailing our services, FAQs, and articles.
- **Enrollment** - step-by-step instructions for employers opening HSAs, links to obtain HSA assistance and materials to help educate employees.
- **Administration** - details the administration services we provide to service your employees' HSAs.
- **Forms and Tools** - direct access to our extensive list of tools and forms; both for initial set-up as well as ongoing administration.
- **Employee Resource Center** - a place for employees to conduct HSA business such as: changing beneficiaries, requesting withdrawals, looking up account balances, or conducting other HSA business.

What is an HSA?

Health Savings Accounts are savings accounts that allow individuals to pay for qualified out-of-pocket medical expenses using pre-tax dollars. Unlike more traditional health care accounts, the funds in an HSA belong to the individual, not the employer or the insurance company, and travel with the individual. In order to take advantage of this tax deferred savings new benefit, individuals must purchase a specific type of health insurance coverage called a High Deductible Health Plan (HDHP).



How do employees manage their HSAs?

- **Employer Resource Center.** HSA Resources Employee Resource Center provides answers and tools for your employees.
- **Change Personal Information.** Employees self-administer changes in name, address, beneficiary information, etc. through tools available on our web site or by calling.
- **Contribution Changes.** If the employee is making automatic contributions from his or her own banking account, then that change can be made through tools available on the Employee Resource Center.
- **HSA Questions.** The Employee Resource Center provides tools to answer key HSA questions
 - Contribution Amount
 - Tax Deduction
 - Distribution Reasons
 - Eligible Medical Expenses
 - Frequently Asked Questions

Click on form or follow hyperlink for more details

The screenshot displays the HSA Resources website interface. At the top, the logo for HSA RESOURCES by STEARNS BANK is visible. Below the logo is a navigation bar with links for Welcome, Services, Forms, Accounts, Agents, and Contact. The main heading is "Employee HSA Resource Center", with a prominent "Open An Account" button. The page is divided into three main sections:

- Employer Links:** A vertical menu with options: Overview, Education, Enrollment, Administration, Forms, Tools, and FAQs.
- Employee Links:** A vertical menu with options: Overview, Education, Forms, Tools, and FAQs.
- Contact Us:** A box containing the phone numbers: p: 866.757.HSAs (4727) and f: 320.323.4488.

The central content area is titled "Employee Overview" and includes the following text:

What is an HSA?
Health Savings Accounts are savings accounts that allow individuals to pay for qualified out-of-pocket medical expenses using pre-tax dollars. Unlike more traditional health care accounts, the funds in an HSA belong to the individual, not the employer or the insurance company, and travel with the individual. In order to take advantage of this tax deferred savings new benefit, individuals must purchase a specific type of health insurance coverage called a High Deductible Health Plan (HDHP).


A diagram shows a box labeled "High Deductible Health Plan" followed by a plus sign and a box labeled "Health Savings Account".

What is an HDHP?
An HDHP is a different type of health plan. Under an HDHP individuals are covered for large expenses and pay for their day-to-day expenses, usually up to the amount of the deductible. In order to meet the requirements an HDHP must have a deductible of at least \$1,050 for individuals or \$2,100 for families plus certain total out-of-pocket expense maximums.

How do employers and employees enroll?

If the employer will be making contributions for employees either directly or by allowing payroll deferral, the following steps are necessary. Otherwise, skip to step 3.

- 1 **Complete the Employer Information Sheet**
The [Employer Information Sheet](#) gathers basic information about the employer and asks questions about how you will run your HSA program. If you will be using our Employer Contribution Spreadsheet (see below) you do not need to complete this form because it is included in the spreadsheet.
- 2 **Complete Employer Contribution Spreadsheet**
We give you three methods to provide us with instructions on allocating your employer contribution: (1) Use our [Employer Contribution Spreadsheet](#) [Excel] to type in your information (also contains the Employer Information Sheet), or (2) Print our [Employer Contribution Form](#) [PDF] and enter your information by hand, or (3) Send us your own allocation sheet, we can work with a variety of formats. If you want to allow employees to make payroll deferrals, you will need a Section 125 plan, [click here to schedule a consult](#).
- 3 **Have your Employees Complete Their Applications**
Each employee needs to complete and sign an [HSA Application](#). If the employer will be making contributions – employees can skip all of section 2. Note: if your employees are transferring funds from another HSA custodian they need to complete and sign a [Transfer Form](#) in addition to their HSA Application.
- 4 **Submit Completed Applications**
Congratulations you're done. Send your completed documents to:
HSA Resources, PO Box 7338, St. Cloud, MN 56302



Employer Information

- 1 **Company Information**
 Company: _____
 Address: _____ City: _____ State: _____ Zip: _____
 Contact Name: _____ Phone: _____
 Contact e-mail: _____
- 2 **Plan Information**
 # of Employees: _____ # Expected to open HSA: _____
 HDHP Information (attach plan materials if easier)
 Single Deductible Level: _____
 Family Deductible Level: _____
 Start Date of HDHP: _____
- 3 **Employer Contributions to HSA (check all that apply)**
 - a. Payroll Deferral. (will the employer make contributions via payroll – ACH from employer bank account or payroll system)
 - i. Date. 1st of the month 30th of the month Other _____
 - ii. Banking Information:
 Bank Name: _____
 Account#: _____
 Routing Number: _____ (attach voided check)
 - iii. Contribution Information: Complete Attached Excel Worksheet or Send Similar Given – See sample on back
 - b. Employer Contributions Not Through Payroll
 - i. Annual (employer initiated – employer will contact HSA Resources)
 - ii. List Bill (HSA Resources mails a periodic (monthly, annual) statement showing deferrals and employer writes a check for the amount)
 - iii. Other _____
 - c. Billing Info: Bill to Employer Deduct from HSA Accounts
 - d. Transfer From Another HSA? Yes, if you are transferring existing HSAs for your employees into this HSA, each employee needs to complete and sign a Transfer Form as well as an Application in order for us to request the funds from the other HSA Custodian.
- 4 **Submission Information**
 Questions? Please contact us for help. Fax or e-mail completed form for quicker service.

Contact Us	Mailing Address:
Fax: 320.325.4488	HSA Resources, LLC
e-Mail: hr@hsaresources.com	PO BOX 277
Phone: 866.757.4727, extension 2	St. Joseph, MN 56374

© HSA Resources, LLC Employer Information Sheet 1/10/06

Click on form

Any other employer services available?

- **Employer Consult.** HSA Resources provides a consultation to discuss HSA plan related issues.
- **Employee Education Tools.** We provide a variety of tools for employers to distribute to employees.
 - Right Choice Brochure
 - HSA Overview Brochure
 - HSA Guide
- **Enrollment Meeting Participation.** HSA Resources will participate in an enrollment meeting via telephone at your request.
- **Section 125 Plan.** We offer a Section 125 plan for employers and/or employees seeking to may pre-tax payroll HSA contributions.
- **Telephone Support.** We support employers.

When is a section 125 plan the right approach?

- You want employees to make contributions through payroll deferral on a pre-tax basis
- You want to take advantage of the Pre-FICA/FUTA nature of employee contributions
- You have enough employees to cover the small cost of a Section 125 plan (generally 3 or more)
- Your employees will be paying a portion of the premium expense - the Section 125 plan lets you do it on a pre-tax, pre-FICA/FUTA basis
- We offer a special "limited" administration Section 125 plan to accomplish these objectives.

What does the HSA offer?

- **FDIC Checking Account**
 - Write checks for medical expenses or reimburse yourself
 - Free starter checks
- **Free Debit Card**
 - No usage charges
- **Free ACH Transfers**
 - Payroll deferral to fund accounts
 - Transfer funds electronically
- **Free Online Access/Internet Banking**
- **Interest Paid on All Deposits**
 - Tiered interest rate that grows as your balance grows
- **Brokerage Account**
 - \$14.95 trades
 - 3.16% interest on money market
- **Exceptional Service**
 - Phones answered by live people trained in HSAs
 - Superior tools, web site, material available
- **Mailed Statements** (monthly if activity)

On Sunday I sent an Application to HSA Resources. Today, Wednesday, I received my checks and information packet. These people know how to do Business!

Recent Customer Comment

What does this cost?

Implementing and administering an HSA is very cost effective when you use HSA Resources.

■ HSA Fees

- \$25 set up fee per employee*
- \$25 annual custodial fee – NO MONTHLY FEES

■ How Paid

- **Employer Paid.** Employers may pay some or all of the fees at the employer's discretion.
- **Employee Paid.** The annual fee will be deducted directly from the HSA.

*call for quote if more than 50 employees



Contact Information

■ Information sources

- [HSA Resources Web Site](http://www.hsaresources.com)
<http://www.hsaresources.com>
- [United States Treasury Web Site on HSAs](http://www.ustreas.gov/offices/public-affairs/hsa/) <http://www.ustreas.gov/offices/public-affairs/hsa/>

■ Employers – Contact Information

- [Visit our Employer Resource Center](http://www.hsaresourcesbank.com/rc/Employer_Resource_Center.php)
http://www.hsaresourcesbank.com/rc/Employer_Resource_Center.php
- See “Enrollment” for enrollment instructions
- Employer questions – 866.757.4727 x2 or x4 to talk with Whit or Steve

■ Employees – Contact Information

- [Visit our Employee Resource Center](http://www.hsaresourcesbank.com/rc/Employee_Resource_Center.php)
http://www.hsaresourcesbank.com/rc/Employee_Resource_Center.php
- Visit our Employee Resource Center
- Employee questions – 888.343.4422 to talk with Jessica or Bernie