

HSA Participant's Reference Guide

Health Savings Accounts

Health Savings Accounts (HSA) are an excellent way to help fund medical expenses. The tax-favored treatment of HSAs was established under the 2003 Medicare legislation. The law authorizes both individuals and employers to use tax-advantage HSAs in conjunction with high deductible health insurance plans. Individuals who establish an HSA, deposit funds into the account tax-free, via salary reductions to pay for qualified medical expenses. The funds are held in a custodial account until which time a qualified medical expense has been incurred, at which point funds can be withdrawn from the account. Unused balances at the end of the Plan Year, are retained in the account and may be carried over to the subsequent Plan Years. In addition, funds in the accounts belong to the individual and are portable from job to job.

Eligibility

To be eligible for an Individual Medical HSA, you must have a qualifying deductible health plan or be applying for one in conjunction with the HSA; and you must not be covered by another health insurance plan (other than a plan providing certain limited types of coverage, such as accidental and scheduled benefit plans).

High Deductible Health Plan

A high deductible health plan is a health plan having an annual deductible of at least \$1,050 for individuals and \$2,100 for families. There are also limits on the amount of out-of-pocket expenses under the health insurance plan. All these limitations are subject to annual cost of living adjustments.

Contributions and Their Tax Deductibility

Contributions to an HSA are tax deductible up to certain limits. The contribution limit for individual coverage is the amount of the annual deductible under the health insurance plan of \$2,700, whichever is lower. The contribution limit for family coverage is the amount of the annual deductible under the health insurance plan or \$5,450, whichever is lower. In addition if you are age 55, or older, you may make an additional contribution of up to \$600 per person to your HSA. If your high deductible policy begins after January, only a pro rate portion of the maximum may be contributed and deducted. (If an Participant enrolls in an HSA at any time during the Plan Year his or her contributions will be prorated by the formula of 1/12 the annual amount for every month of participation.) The contributions for an HSA through FlexSystem (IRC Section 125 Plan with the HSA feature) are not subject to Federal and State income tax and FICA. These contributions are made via payroll deduction. Contributions are taken from you payroll on a pre-tax basis and transferred via FlexSystem HSA services to your HSA account. This is done by authorization of the Participant.

Withdrawals

The money in the HSA accumulates on a tax-deferred basis. Withdrawals for qualified medical expenses are not taxable. Withdrawals for reasons other than qualified medical expenses prior to age 65 are taxable and subject to a 10 percent penalty. Upon death, disability, age 65 or upon Medicare eligibility, funds can be withdrawn for non-medical reasons without penalty, but the distributions will be subject to income taxes.

Rollovers

You are permitted to roll over funds from a Medical Savings Account (MSA) to your HSA on a tax-free basis.

Participant Responsibilities

It is up to each individual Participant (Depositor) to make sure that contributions to the HSA do not go beyond the maximum limits. It is also the Participant's (Depositor) responsibility to make sure that his/her withdrawals are for qualified medical expenses to meet tax deductibility requirements. These expenses are defined in Section 213(d) of the Internal Revenue Code.