



# My HSA Manager

A guide for everything you need to know about your Health Savings Account



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## Basic HSA Guidelines

### What is an HSA?

The concept of HSAs combines an affordable qualified HDHP and a tax-favored HSA. The combination results in savings through lower healthcare premiums and a reduction in taxable income. The HSA grows tax-free and if the HSA funds are used for eligible medical expenses, distributions are not taxed.

Before an HSA can be established, a qualified HDHP must be in place to cover the individual or family.

### Who is Eligible to Contribute to an HSA?

- Any adult individual that:
  - Is covered by a qualified HDHP; it must satisfy both the annual deductible and out-of-pocket expense as follows:
    - Single Coverage— the annual deductible must be at least \$1,100 with the out-of-pocket not to exceed \$5,800 for **2009** and \$5,950 for **2010**.
    - Family Coverage—the annual deductible must be at least \$2,200 with the out-of-pocket not to exceed \$11,600 for **2009** and \$11,900 for **2010**.
  - Is not covered by another non HDHP
  - Is not enrolled in Medicare
  - Cannot be claimed as a dependent on another individual's tax return
    - Children cannot establish their own HSAs
    - Spouses can establish their own HSAs, if eligible (only if both spouses have individual HDHPs—if either spouse has “family” coverage, then that person can establish and contribute to the HSA)
- There are no income limits on who may contribute to an HSA
- There is no requirement of having earned income to contribute to an HSA

We designed the HSA Guide to help you make the most of your HSA. However, it is not legal or tax advice. It addresses the basics of an HSA, but is a general guide and as such, it cannot address ALL of the issues that may affect each individual HSA owner. Always consult your attorney or tax professional before taking any action.



## Contributions

### Contributions

- Contributions can be made by account holders, employers and any other third party
- Contributions must be made in cash (rollovers and transfers may be made in-kind)
- Contributions that you make to your HSA are tax-deductible
- Employer contributions are excluded from employees' gross income and are not subject to withholding for income tax
- Earnings on amounts in an HSA accumulate tax-deferred and do not have to be included in gross income while held in an HSA
- Contributions made to an account belong to the account holder exclusively
- Annual contributions are limited to the applicable Internal Revenue Service (IRS) Contribution Limits
- Once an individual enrolls in Medicare, contributions must stop; however, the money may remain in your HSA for use to pay medical expenses tax-free

HSAs provide tax benefits for the funds contributed. However, the IRS limits the amount account holders can contribute to an HSA for each tax year. If an account holder contributes more than the IRS allows, there may be tax penalties. To avoid making excess contributions, account holders should coordinate all contributions made to their account including those made by an employer or another third party.

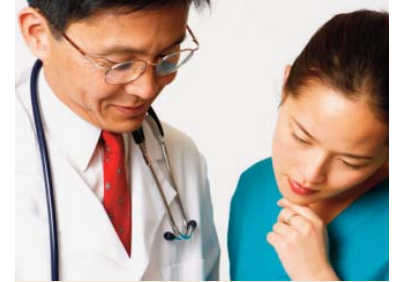
While the basic IRS annual contribution limits listed in the table above are applicable to all taxpayers, there may be questions as to how they apply in certain situations. Those questions should be referred to your attorney or other tax professional. It is the account holder's responsibility not to exceed their contribution limits.

### IRS Contribution Limit

	Single	Family
2009	\$3,000	\$5,950
2010	\$3,050	\$6,150

### Excess Contributions

If excess contributions are made, please review the situation with your tax advisor. An excise tax of 6% is imposed for all contributions made by you or your employer that are in excess of your contribution limits. This 6% tax is cumulative and imposed each year upon the amount of excess contributions, plus the net income attributable to such excess contributions. If you make an excess contribution to your HSA, you should notify the custodian, Millennium Trust. To avoid this tax penalty, you must remove the excess contributions before the filing date for current year taxes, without extensions. Upon removing the excess, you will be subject to income taxes on the portion of the HSA's income that is attributable to the excess contribution.



## "Catch-Up" Contributions

An additional "catch-up" contribution is available to individuals age 55 and over who are not enrolled in Medicare.

### "Catch Up" Limits

2009 and after	\$1,000
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Example: Over a 10-year period, A 55 year old who makes the maximum annual HSA contribution of \$61,300 and an additional \$10,000 in catch-up contributions can contribute a total of \$71,300 to their HSA (based on the contribution limits and catch-up contribution limits provided by the IRS as of 6/2009 and does not include any adjustment for inflation). An HSA is also an important retirement tool since you can continue to use the funds from your account to pay for medical expenses tax-free once you reach 65 years of age.

## Your First Year's Contribution Limit

The effective date of your HDHP coverage is also the date you become eligible to contribute to your HSA. If you do not have an HSA for the entire year, you can still make the maximum annual contribution, including catch-up contributions for individuals age 55 or older; provided (a) you became eligible to contribute to an HSA prior to December 1 of that year and (b) you remain eligible to contribute to an HSA through the twelfth month following the year you became eligible (the "testing period"). If you cease to qualify to contribute to an HSA during the testing period, all contributions which the IRS attributes to the months preceding the month in

which you actually became eligible to contribute to an HSA, will be subject to income tax in the year you ceased to be eligible, and will be subject to a 10% excise tax.

Example: An individual under 55 enrolls in Single-Only Coverage on July 1, 2009. The individual may contribute the maximum IRS limit of \$3,000 for 2009. However, if that individual ceases to be eligible in January 2010—for reasons other than death or disability—after having made their maximum contribution for 2009, an amount equal to their HSA contributions for January 2009 through June 2009 (\$1,500) will be included in their gross income for 2009. Additionally, a 10% excise tax will apply.

The material in this section reviews general rules for determining contribution limits for the year in which you are first eligible to contribute to an HSA. If you do not remain eligible during the entire testing period, it is your responsibility to notify the custodian, and file and pay your taxes accordingly. Amounts that no longer qualify as eligible contributions will be treated as excess contributions. However, there may be questions concerning the operation of the testing period in various situations and the IRS may issue further clarifications. Please consult your tax professional.



## Qualified Medical Expenses and Distributions

### Qualified Medical Expenses and Distributions

You can use the money in the account to pay for any “qualified medical expense” permitted under federal tax law, for yourself, your spouse and your dependent children. You can pay for the expenses of your spouse and dependent children even if they are not covered by your HDHP. A “qualified medical expense” includes most medical care and services, dental and vision care, as well as over-the-counter drugs. You can use funds in your HSA for any purpose, BUT any amounts used for purposes other than to pay for “qualified medical expenses” are taxable as income to you and subject to an additional 10% tax penalty.

Generally, you cannot use the money tax-free to pay for medical insurance premiums, except under specific circumstances, including:

- Any health plan coverage while receiving federal or state unemployment benefits
- COBRA continuation coverage after leaving employment with a company that offers health coverage
- Qualified Long-Term Care (LTC) insurance
- Medicare premiums and out-of-pocket expenses, including deductibles, co-pays, and coinsurance for:
  - Part A (hospital and inpatient services)
  - Part B (physician and outpatient services)
  - Part C (Medicare HMO and PPO plans)
  - Part D (prescription drugs)

Examples of taxable distributions include the following:

- Medical expenses that are not considered “qualified” under federal tax law (e.g., cosmetic surgery)
- Premiums on health insurance unless specifically described in the previous section
- Medicare supplemental insurance premiums
- All expenses that are not medical or healthcare related

After you turn age 65, the 10% additional tax penalty no longer applies. If you become disabled and/or enroll in Medicare before you turn 65, you can use your HSA for other purposes without paying the additional 10% penalty. All distributions and payments must be reported to the IRS.

For the detailed list of eligible medical expenses, please refer to IRS Publication 502 found at [www.irs.gov](http://www.irs.gov).

Account holders can benefit from tax-free distributions for:

- Qualified medical expenses
- LTC insurance and services
- COBRA coverage
- Medicare expenses (not Medigap)
- Retiree health expenses for ages 65 and older

# Health Savings Accounts



Keep in mind that your HSA is completely separate from the HDHP. You can use the funds tax-free for any medical expense under section 213(d) of the Internal Revenue Code, except for health insurance premiums. Any health insurance coverage will have limits on the expenses it pays—it may exclude some expenses entirely—for example, health insurance coverage may not pay benefits for dental care. To determine what the HDHP covers, you must check with your specific plan.

The ability to use your HSA for a qualified medical expense does not depend on whether the expense is covered by your HDHP. In addition, using your HSA funds for the expense does not mean it will be credited against your HDHP's deductible.

If the HDHP does not cover dental expenses, and you use your HSA to pay for dental expenses, those expenses do not go towards satisfying the deductible of the HDHP. However, as a qualified medical expense, their payment from your HSA will be exempt from taxes.

- You may use distributions from your HSA to reimburse prior years' expenses as long as they were incurred on or after the date on which the account was established
  - There is no time limit on when a distribution must occur
  - You must keep records sufficient to prove that:
    - The expenses were incurred for qualified medical expenses
    - They were not paid for or reimbursed by another source or taken as an itemized deduction

- Mistaken distributions from your HSA can be returned to the account to avoid the 10% excise tax provided that:
  - You can show clear and convincing evidence that the distribution was a mistake of fact and you certify as much to the custodian in writing
  - The account is repaid by April 15 (or current tax filing deadline) of the year, following the year in which you knew or should have known the distribution was a mistake
- Qualified LTC Insurance Premiums
  - Premiums can be paid, tax-free, from your HSA, even if amounts were contributed to the account through a cafeteria plan
  - Tax-free reimbursement cannot exceed the annually adjusted "eligible long-term care premiums," as defined in the Internal Revenue Code
  - The amount of eligible LTC premium is based on age (see IRS Publication 502 for dollar limits)

Qualified medical expenses must have occurred after the establishment of your HSA to receive tax-free treatment upon distribution. Meeting contribution limits and choosing expenses that qualify for tax-free distributions are the sole responsibility of the account holder.



## Rollovers and Transfers

You may elect to receive funds directly from the current administrator of your Archer MSA or another HSA, and “roll over” these funds into your HSA. Rollovers from Archer MSAs and other HSAs are permitted with the following limitations:

- Only one rollover per year is permitted
- The rollover to a new HSA must be completed within 60 days
- Rollovers may be made with in-kind assets and/or cash

You may also make a one-time tax-free rollover from a Health Flexible Spending Account (FSA) and/or a Health Reimbursement Arrangement (HRA), provided certain conditions are met (consult your tax professional). Please ask your employer’s Plan Administrator to determine whether your plan allows for these rollovers. A rollover from an FSA or HRA does not count towards your maximum annual contribution. Direct rollovers from 401(k), 403(b) and 457 plans are not currently permitted.

A “transfer” is a direct transfer of funds from one custodian to another custodian. Unlike a rollover, you will not receive funds from your Archer MSA or HSA when making a direct custodian-to-custodian transfer. Transfers are not subject to the rollover restrictions outlined in the previous section. However, you should be aware of the following guidelines:

- Multiple custodian-to-custodian transfers are allowed in a single year
- Transfers may be made with in-kind assets and/or cash
- Both custodians must agree to do the transfer; they are not required to do so

You are also permitted to make a one-time, tax-free transfer directly from your IRA to your HSA. However, with a transfer from your IRA (a) the amount transferred cannot exceed your maximum annual HSA contribution limit; (b) the amount transferred will reduce the amount you could otherwise contribute that year to your HSA; (c) the amount transferred must be in cash; and (d) it must be a custodian-to-custodian transfer and completed by December 31. You may want to consult your tax professional on the benefits and consequences of a transfer from your IRA, given your particular tax and financial situation. Currently, there is no comparable transfer back to your IRA.



## Tax Reporting

Millennium Trust (as custodian) will provide tax reporting for your HSA.

### IRS Forms

- 1099-SA Form—Reflects all distributions from your HSA. The custodian will send it to the IRS and will send a copy to you no later than January 31 of each year, if you had distributions in the previous tax year. You should file the 1099-SA with your IRS Form 1040, along with either Form 8853 or Form 8889.
- 5498-SA Form—Reflects all contributions made to your HSA. The custodian will send it to the IRS and will send a copy to you no later than May 31 of each year, if you had contributions the previous tax year and/or your HSA had market value on the last day of the previous tax year.

### Reporting Distributions

Millennium Trust (as custodian) must report all distributions annually to the individual (Form 1099-SA)

- The custodian is not required to determine whether distributions are used for qualified medical expenses; this is the HSA owner's responsibility
- You will report on your annual tax return the amount of the distribution used for qualified medical expenses
- There may be additional reporting for excess contributions, if applicable

IRS Reporting Regulations	HSA Owner	Millennium Trust (custodian)
Contributions	Form 8889 (HSAs), attached to Form 1040	Form 5498-SA
Distributions	Form 8889 (HSAs), attached to Form 1040	Form 1099-SA

# Health Savings Accounts



## **Purpose of Form 8889:**

- Report HSA contributions (including those made on your behalf and employer contributions)
- Figure your HSA deduction
- Report distributions from HSAs

## **You Must File Form 8889 if:**

- You (or someone on your behalf, including your employer) made contributions to your HSA
- There were distributions from your HSA whether or not those distributions were for qualified medical expenses
- You acquired an interest in an HSA because of the death of the account beneficiary

You must report excess contributions, which are subject to excise tax, on IRS Form 5329.

## **BENEFICIARIES – TREATMENT AT DEATH**

The tax treatment of an HSA after the death of the HSA owner depends on whether a spouse or non-spouse is designated as the death beneficiary of the account.

### **SPOUSE AS DEATH BENEFICIARY**

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If the deceased HSA owner's death beneficiary is a spouse, the HSA is retitled and treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses are exempt from federal income tax and penalties.

### **NON-SPOUSE AS DEATH BENEFICIARY**

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If a non-spouse beneficiary is the death beneficiary, the HSA ceases to be an HSA as of the date of death, and the non-spouse death beneficiary must include the fair market value of the HSA in his or her income for the year of the death.

**Note:** The amount that a death beneficiary must include in income (unless the death beneficiary is the decedent's estate) is reduced by any payments made by the HSA for the decedent's qualified medical expenses, if paid within one year after death.

## Account Holder Responsibilities

- Verify that you have coverage under a qualified High-Deductible Health Plan.
- Decide how and when you want to use the funds in your HSA.
- Take responsibility for any funds used for non-qualified medical expenses and report them to the IRS.
- In order to appropriately reimburse yourself and document that distributions qualify for tax-free treatment, retain all eligible medical receipts.
- Notify your custodian of any excess contributions. To avoid a tax penalty, you will need to complete a distribution form to direct the custodian to remove any excess contribution (and earnings on the excess contribution) from your account.
- Do not exceed your HSA contribution limits
- Determine, regarding your initial contribution to your HSA, if you remained eligible during the applicable testing period and take the appropriate action if you did not.
- Work with your investment professional to direct the investments of the assets in your Brokerage Account.
- Carefully read the Custodial Agreement and the Disclosure Statement that governs the operation of your HSA.





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