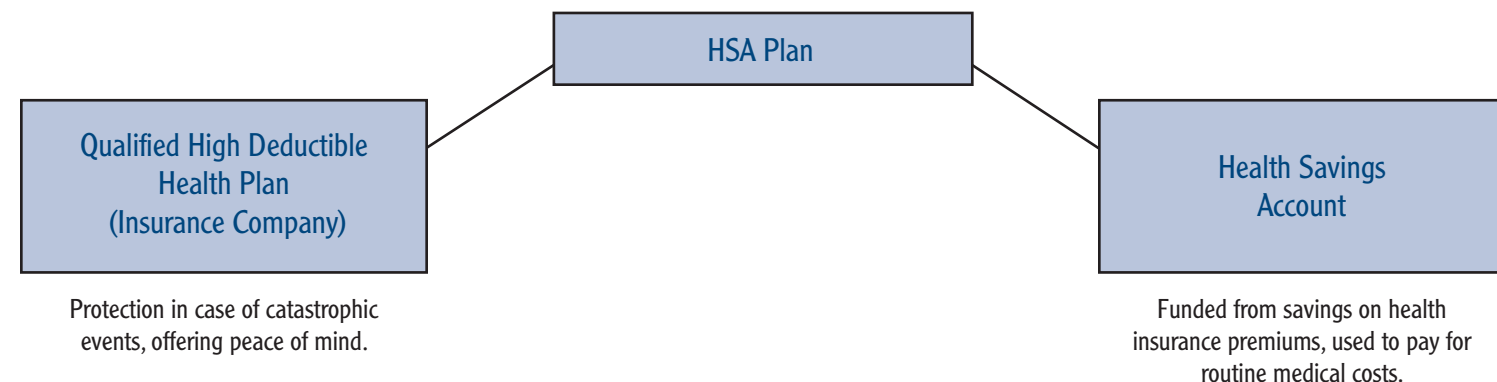


# How Health Savings Accounts (HSAs) Work

An HSA allows you to take the savings you receive on premiums when switching to a higher deductible plan and deposit them into a tax-free account to use for expenses that are under your deductible. If you don't spend this money, you keep it. It won't go to an insurance company. It's your money.



## Frequently Asked Questions

### What is a Health Savings Account (HSA)?

An HSA is an account designed to fund present or future medical expenses incurred by the account holder and his/her dependents.

### How is an HSA funded?

This account can be funded with your pre and post-tax dollars, by your employer, or by friends or family.

### Who is eligible for an HSA?

- Anyone covered by a Qualified High Deductible Health Plan (QHDHP)
- Anyone not covered under another medical plan that is not a QHDHP
- Anyone not entitled to Medicare benefits
- Anyone not eligible to be claimed on another person's tax return

### How much can I contribute to an HSA?

The Internal Revenue Service ("IRS") has established the following annual contribution limits for 2011:

- \$6,150 for family coverage
- \$3,050 for individual coverage
- \$1,000 "catch up" for individuals age 55 or older

### How do my HSA dollars work in conjunction with my health plan?

You can request your provider submit your claim to your health plan. Once the medical claim has been processed, if applicable, out-of-pocket expenses will be billed. At this time you may choose to use your HSA dollars to pay for any out-of-pocket expenses, or choose to write a personal check and reimburse yourself at a later time. You should always ask that your medical claim be submitted to the health plan before you seek reimbursement from your HSA. This will ensure that provider discounts are applied. Also, remember to keep all medical receipts and EOB's as proof your HSA dollars were used for qualified medical expenses.

### Do my contributions provide any tax benefits?

Your personal contributions offer you an "above-the-line" deduction. An "above-the-line" deduction allows you to reduce your taxable income by the amount you contribute to your HSA up to the annual limit. You do not have to itemize your deductions to benefit. Contributions can also be made to your HSA by others (e.g., relatives). However, you receive the benefit of the tax deduction.

### Who has control over the money invested in a Health Savings Account?

The account holder controls all decisions over how the money is invested. You can also choose not to invest your funds.

### Can I use funds from my IRA, 401(k) or other retirement plan to fund my HSA?

You cannot directly roll funds from a 401(k) or other retirement plan into an HSA. You can withdraw funds from one of these accounts, pay applicable taxes (and penalties) on the amount withdrawn, and then use the remaining funds to make a contribution to your HSA. However, the amount you contribute to your HSA is still limited by the annual contribution limits. You can make a once-in-a-lifetime rollover from an IRA to a Health Savings Account.

### What happens to the money in my HSA when I die?

If married, your spouse becomes the owner of the HSA. If unmarried, the HSA becomes part of your taxable estate.

### What happens if I don't use the money in the HSA for medical expenses?

If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 20% tax penalty.

### Can I use the money in my HSA to pay for medical, dental or vision care for a family member?

Yes, you may withdraw funds to pay for the qualified expenses of yourself, your spouse or a dependent without tax penalty. This is one of the great advantages of HSAs.

### Do unused funds in a Health Savings Account roll over year after year?

Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won't lose your money if you don't spend it within the year.

### Who can help me establish my account?

Contact your HR representative to obtain application information. An HSA Education Coordinator from Union Bank & Trust is available to answer any questions.

# HSA Facts

|               |   | Health Savings Account (HSA)  |
|---------------|---|---|
| Eligibility   | Plan Sponsors   | HSAs are not an employer sponsored plan.  |
|               | Enrollees   | Individual cannot be enrolled in Medicare or be covered by any other health plan which is not a "qualified" High Deductible Health Plan as defined by the IRS.  |
|               | What type of corresponding health plan is required?           | Minimum Deductible: Single \$1,200 Family \$2,400<br>Maximum Out-of-Pocket: Single \$5,950 Family \$11,900<br>Inflation adjusted, 100% Preventative allowed   |
|               | Can be offered with FSA?                                      | Post Deductible FSA's and certain Limited Purpose FSA's are permissible   |
| Funding       | Is it a personal account?                                     | Yes   |
|               | Vesting   | Immediate   |
|               | Availability of funds?  | Available only when collected funds have been deposited into the account.   |
|               | Who funds it?   | Any combination of employee, employer, family member, or other.   |
|               | How is it funded?   | Collected funds in personal account. Excludable from employee gross income. If employee contributions made through cafeteria plan, then exempt from FICA as well.   |
|               | Max. Annual Contribution                                      | Annual contribution cannot exceed \$3,050 Single / \$6,150 Family for 2011.   |
|               | Allow for "catch-up" contributions?                           | Yes, individuals age 55 (and older) can contribute \$1,000 in 2011.   |
|               | Employer tax deductible                                       | Deductible  |
| Accumulation  | Employee tax deductible                                       | Deductible  |
|               | Does interest accrue?   | Yes, accrued tax-free in qualified HSA  |
|               | Carryover of funds if not used during plan year?              | Yes   |
| Disbursements | Portable to employee upon termination?                        | Yes, it is owned by the employee  |
|               | What's included in eligible expenses?                         | Section 213(d) expenses. Health insurance premiums including LTC, continuation coverage. Excludes Medigap but allows Medicare Part A/B.   |
|               | Can balances be taken in cash?                                | Yes, refer to tax consequences  |
|               | Tax consequences for eligible expenses                        | Received Tax-Free   |
|               | Tax consequences for non-eligible expenses                    | Taxed as ordinary income + 20% penalty unless made after death, enrolled in Medicare or due to SS total disability.   |
|               | Options at death  | Transfer tax-free to spouse account, taxed as income for other beneficiaries.   |
|               | Rollover  | One-time irrevocable tax-free trustee-to-trustee transfer of a qualified HSA funding distribution from an IRA into an HSA is allowed. Such transfers count towards the annual contribution limit for the taxable year in which they are made. |
| Misc.         | Can I pay for expenses incurred prior to establishing my HSA? | No. Only qualified expenses incurred after the account was established are eligible to be paid from your HSA.   |
|               | Who owns it?  | Individual/Employee   |
|               | Permitted trustees of the account                             | Banks, life insurance companies, health insurers, other IRS qualified trustees.   |
|               | 3rd party claim adjudication required?                        | No (Employee self-substantiation must be provided upon IRS request.)  |

\*Investment products: Not FDIC Insured—No Bank Guarantee—May Lose Value

# HSA Qualified Medical, Dental & Vision Expenses

## Effect of New Over-the-Counter (OTC) Rules:

Beginning January 1, 2011, only drugs and medicines that are prescribed drugs will become eligible expenses under your Health Savings Account. This does not mean that all items that are available OTC will be ineligible expenses. In fact, only one-third of the OTC categories will be affected. Below are the key points regarding the impact on Health Savings Accounts with respect to OTC items.

- The provision applies on a calendar year basis for all HSA accounts regardless of plan year dates effective January 1, 2011.
- Drugs and medicines that are available OTC will be considered INELIGIBLE unless accompanied by a prescription from a physician.
- This provision will change how account owners use their HSA dollars to purchase OTC items. While not all inclusive, below are OTC drugs and medicines that may no longer be purchased with your HSA dollars.

| Ineligible Medical Expenses  |   |  |   |
|--|---|--|---|
| <ul style="list-style-type: none"> <li>• Acid Controllers</li> <li>• Allergy &amp; Sinus</li> <li>• Antibiotic Products</li> <li>• Antidiarrheals</li> <li>• Anti-Gas</li> </ul> | <ul style="list-style-type: none"> <li>• Anti-itch &amp; Insect Bite</li> <li>• Anti-parasitic Treatments</li> <li>• Baby Rash Ointments/Creams</li> <li>• Cold Sore Remedies</li> <li>• Cold, Cough &amp; Flu</li> </ul> | <ul style="list-style-type: none"> <li>• Digestive Aids</li> <li>• Feminine Anti-Fungal/Anti-itch</li> <li>• Hemorrhoid Preps</li> <li>• Laxatives</li> <li>• Motion Sickness</li> </ul> | <ul style="list-style-type: none"> <li>• Pain Relief</li> <li>• Respiratory Treatments</li> <li>• Sleep Aids &amp; Sedatives</li> <li>• Stomach Remedies</li> </ul> |

Below is a quick reference list of expenses that can be reimbursed from a Health Savings Account. Medical expenses allowed as deductions are determined by Section 213(d) of the Internal Revenue Code. For more detailed information, please refer to IRS Publication 502 titled "Medical and Dental Expenses," Catalog Number 15002Q. You can order the publication by calling 1-800-TAXFORM or see it online at [www.irs.gov/pub/irs-pdf/p502.pdf](http://www.irs.gov/pub/irs-pdf/p502.pdf). For tax advice, please seek the services of a competent professional.

| Eligible Medical Expenses  |   |   |
|--|---|---|
| <ul style="list-style-type: none"> <li>• Abdominal supports</li> <li>• Acupuncture</li> <li>• Air conditioner (when necessary for relief from difficulty breathing)</li> <li>• Alcoholism treatment</li> <li>• Ambulance</li> <li>• Anesthetist</li> <li>• Arch supports</li> <li>• Artificial limbs &amp; teeth</li> <li>• Autoeette (when used for relief of sickness or disability)</li> <li>• Birth control pills (by prescription)</li> <li>• Blood tests</li> <li>• Blood transfusions</li> <li>• Braces</li> <li>• Cardiographs</li> <li>• Chiropractor</li> <li>• Contact lenses</li> <li>• Contraceptive devices (by prescription)</li> <li>• Convalescent home (for medical treatment only)</li> </ul> | <ul style="list-style-type: none"> <li>• Crutches</li> <li>• Dental treatment, except for teeth whitening</li> <li>• Dental X-rays</li> <li>• Dentures</li> <li>• Dermatologist</li> <li>• Diagnostic items/services</li> <li>• Diathermy</li> <li>• Drug addiction therapy</li> <li>• Drugs (prescription)</li> <li>• Elastic hosiery (prescription)</li> <li>• Eyeglasses</li> <li>• Eye Exams</li> <li>• Fluoridation unit</li> <li>• Guide dog</li> <li>• Gum treatment</li> <li>• Hearing aids</li> <li>• Hospital Services</li> <li>• Medical Services</li> <li>• Medicine</li> <li>• Nursing Services</li> <li>• Operations</li> </ul> | <ul style="list-style-type: none"> <li>• Oxygen</li> <li>• Psychoanalyst</li> <li>• Psychologist</li> <li>• Psychotherapy</li> <li>• Radium therapy</li> <li>• Registered nurse</li> <li>• Special school costs for the handicapped</li> <li>• Spinal fluid test</li> <li>• Splints</li> <li>• Sterilization</li> <li>• Surgeon</li> <li>• Telephone or TV equipment to assist the hard-of-hearing</li> <li>• Therapy equipment</li> <li>• Transportation expenses (relative to health care)</li> <li>• Vaccines</li> <li>• Vasectomy</li> <li>• Vitamins (if prescribed)</li> <li>• Wheelchair/Wheelchair Maintenance</li> <li>• Wigs</li> <li>• X-rays</li> </ul> |
| Eligible Over-the-Counter Expenses   |   |   |
| <ul style="list-style-type: none"> <li>• Acne Creams (Clearasil, OXY)</li> <li>• Antifungal (foot) (Lamisil, Lotrimin)</li> <li>• Antiseptics &amp; Wound Cleansers (Alcohol, Peroxide)</li> <li>• Baby Electrolytes &amp; Dehydration (Pedialyte)</li> <li>• Baby Teething Pain (Baby Orajel)</li> <li>• Contact Lens Solution/Supplies</li> <li>• Denture Adhesives &amp; Cleansers (Poligrip)</li> <li>• Denture Pain Relief (Benzodont)</li> </ul>   | <ul style="list-style-type: none"> <li>• Diabetic Supplies</li> <li>• Fiber Laxatives (Benefiber, Fibercon)</li> <li>• First aid burn remedies (Dermoplast, Solarcaine)</li> <li>• First aid dressings &amp; Supplies (Band Aid, 3M)</li> <li>• Glucosamine &amp;/or Chondroitin (Osteo-Bi-Flex, Cosamin)</li> <li>• Incontinence Protection &amp; Treatment Products</li> </ul>  | <ul style="list-style-type: none"> <li>• Nasal Sprays, Drops &amp; Inhalers (Afrin Spray, Ocean Nasal spray)</li> <li>• Prenatal Vitamins (Stuart Prenatal, Nature's bounty Prenatal)</li> <li>• Skin Treatments (Psoriasis, MG217, Dermarest Eczema)</li> <li>• Smoking Deterrents (Nicoderm, Nicorette)</li> </ul>  |

For more information on how an HSA can work for you, contact:  
 (402) 323-1482 • (888) 769-2362 • [hsa@ubt.com](mailto:hsa@ubt.com)



## Health Savings Accounts

