American Health Value
HSAs Done Right!

2015 FAQ for Employers

1. **What will my employees receive when their accounts are opened?** Within 24 hours of their account being opened, employees who provided us with their email address will receive an email from AHV The Bancorp confirming their account has been established. This email will also include their temporary password for online account access.

   Within 7-14 business days after the account has been opened, your employees will receive the following items by mail (each mailed separately):

   A. AHV The Bancorp Welcome Letter:
      - Signature Card: Employees are required to sign and return
      - Temporary User ID: Required for accessing account online

   B. American Health Value Visa Debit Card

   C. Pin Number for Debit Card

   A free starter set of 50 personalized checks can be ordered from their online account.

2. **What happens if an employee opens a federally qualified HSA, then leaves the company and/or becomes ineligible?** The HSA account is the property of the employee. If the pro-rated maximum contribution has already been deposited, they will no longer be able to make deposits to the account unless they continue with COBRA or purchase another HSA-qualified insurance plan. They have the following options:

   A. Leave their account open and continue to use the funds for qualified expenses. They can also use the funds to pay their COBRA premiums.

   B. Leave their account open and withdraw funds at age 65 as supplemental retirement income. Withdrawals as retirement income are subject to tax, but no penalties.

   C. Close their account.
      - If the funds are used to reimburse medical expenses that were already incurred, there is no tax consequence. The employee should keep their medical receipts for tax purposes and documentation.
      - If the funds are <u>not</u> used to reimburse medical expenses that were already incurred, the withdrawal is taxable and subject to a 20% penalty. The taxes and penalties are calculated when the employee files their income tax return.

   D. If the account remains open and the employee later has other HSA-qualified insurance, they can resume deposits into the account.

3. **What guidelines must be met to receive a federal tax deduction?** To be eligible for a 'Federally Qualified' tax deferred HSA account, an individual must meet two primary qualifications:

A. **Insurance Coverage:** They must have an HSA-qualified health insurance policy. The federal legislation is specific on the deductible limitations to meet this requirement. For 2015 they are as follows:

- **Individual Policy**: The deductible must be no less than $1,300 with total out-of-pocket costs not exceeding $6,450 per plan year.
- **Family Policy**: The deductible must be no less than $2,600 with total out-of-pocket costs not to exceed $12,900 per plan year. Some policies have a family deductible as well as individual deductibles (embedded deductible) under the family policy. The embedded deductible cannot be less than $2,600.

B. The individual cannot be covered under another medical health insurance plan that is not HSA-qualified (including Medicare).

4. **Can deposits be made to an HSA if the employee or their spouse also has an FSA or HRA?** Deposits to an HSA are allowed with "limited purpose" or "post-deductible" FSA or HRA plans. Regular FSA or HRA plans will disqualify an employee from receiving deposits to their HSA. The dependent care portion of an FSA does not affect eligibility of an HSA.

5. **How do I fund my employees' accounts?** Please refer to the "HSA Employer Reference Sheet" in your Administration Kit for information on funding accounts.

6. **Can I pre-fund the HSA for employees who incur medical expenses in excess of the amount the employer has funded to date?** Yes. However, funding can only be done in advance for the current calendar year.

7. **Can an employee fund their HSA through an IRA?** Yes. An employee is allowed to make a <u>one-time deposit</u> from their IRA into their HSA. This is considered a contribution, not a rollover. It can only occur from an IRA (not a 401K, SEP, or other retirement account).

8. **Can employees make pre-tax deposits to their HSAs?** Pre-tax deposits by employees can only be made through a cafeteria plan.

9. **Can an employer deposit different amounts to their employee's HSAs?** Different amounts can be deposited if an employer is funding the HSAs through a cafeteria plan. The cafeteria plan must, however, pass the discrimination testing rules of the plan.

   If you are not funding your employee accounts through a cafeteria plan, you are required to fund under the "Comparability Rules". Please see the "Comparability Rules" section following item #12 in this document.

10. **How does the employee report HSA contributions (deposits) and distributions (withdrawals) on their tax return?** The employee will need to complete Form 8889 to report HSA deposits and withdrawals made for the year. This applies whether the employee or the employer is making deposits to the account.

11. **How are employer deposits reported to the employee at the end of the year?** Employer deposits and pre-tax employee deposits are reported on the W-2 (Box 12, Code W).

12. **Do you provide year-end tax forms to report total transactions on the HSA?** Yes. Each account holder will receive Form 1099-SA showing withdrawals from the account during the year, and Form 5498-SA showing deposits to the account for the year. These forms are for the taxpayer's information and do not need to be filed with their tax return, but should be kept with their tax records. This information is sent to the IRS electronically by the bank.

Comparability Rules

If employer HSA deposits are not done through a cafeteria plan, the employer must fund under the comparability rules established by the IRS. Under these rules, comparable contributions (deposits) must be made to the same class of employees with the same category of coverage.

Eligible classes of employees are:
- Full Time
- Part Time (customarily employed fewer than 30 hours per week)
- Former Employees (excluding COBRA participants)

Categories of coverage are:
- Single
- Family (Employee plus one or more dependents)

Comparable contributions are:
- The same dollar amount, or
- The same percentage of the annual deductible

Exception to Comparability Rules – Employers may make additional deposits for lower paid employees

1. **Am I responsible for making sure my employees open an HSA so they can receive comparable employer deposits?** You must provide written notification by January 15 of each year to all HSA eligible employees who have not notified you about opening an HSA prior to the end of the previous calendar year. Employees will then have until the end of February to open an account and provide you with the necessary information for funding. You have until April 15 to fund the accounts with comparable deposits, plus reasonable interest. (IRS sample language for this notification is provided on the next page.)

2. **Can I pre-fund the HSA accounts of employees who incur medical expenses in excess of the amount the employer has funded to date?** Yes. However, funding can only be done in advance for the current calendar year. Total deposits at year-end for all employees must meet the comparability rules.

3. **Are employers assessed a penalty by the IRS if HSA deposits do not meet the comparability rules?** Yes. If the employer does not follow the comparability rules, the employer is assessed an excise tax equal to 35% of the aggregate amount deposited by the employer to the HSAs of all employees during the calendar year.

Sample Notice

Employers may use the following sample language as a basis in preparing their own notices.
(If your funding is done through a cafeteria plan, this notice does not apply to you.)

Notice to Employees Regarding Employer Deposits to HSAs:

This notice explains how you may be eligible to receive deposits from **[insert employer name]** if you are covered by an HSA-qualified Health Plan.

[Insert employer name] provides contributions to the Health Savings Account (HSA) of each employee who is **[insert employer's eligibility requirements for HSA deposits]** (``eligible employee''). If you are an eligible employee, you must do the following in order to receive an employer deposit:

(1) Establish an HSA on or before the last day in February of **[insert year after the year for which the deposit is being made]** and;

(2) Notify **[insert name and contact information for appropriate person to be contacted]** of your HSA account information on or before the last day in February of **[insert year after year for which the deposit is being made]**. **[Specify the HSA account information that the employee must provide (e.g., account number, name and address of trustee or custodian, etc.) and the method by which the employee must provide this account information (e.g., in writing, by email, on a certain form, etc.)]**.

If you establish your HSA on or before the last day of February in **[insert year after year for which the deposit is being made]** and notify **[insert employer name]** of your HSA account information, you will receive your HSA deposits, plus reasonable interest, for **[insert year for which deposit is being made]** by April 15 of **[insert year after year for which deposit is being made]**.

If, however, you do not establish your HSA or you do not notify us of your HSA account information by the deadline, then we are not required to make any deposits to your HSA for **[insert applicable year]**.

You may notify us that you have established an HSA by sending an **[insert email]** or a written notice to **[insert name, title and, if applicable, email address]**. If you have any questions about this notice, you can contact **[insert name and title]** at **[insert telephone number or other contact information]**.