



First HSA

**Employer  
User  
Manual**

# **Frequently Asked Questions**

## **What is a Health Savings Account?**

A Health Savings Account (HSA) is a tax-advantaged account that participants can use to pay for qualified health expenses they incur while covered by the high deductible health plan (HDHP).

## **Who can contribute to a Health Savings Account?**

Eligible employees or employers or both can contribute to a Health Savings Account. In addition, family members can make contributions to a Health Savings Account; however, that account must be established by an individual and funded according to IRS rules. When an employer contributes to the Health Savings Account, the funded amount is excluded from the employee's gross income. As a result, contributions are not subject to withholding from wages for income tax, FICA tax, State and Local taxes, Federal Unemployment Tax (FUTA) or the Railroad Retirement Tax. Contributions to an employee's Health Savings Account through a cafeteria plan are treated as employer contributions. The employee cannot deduct employer contributions on his/her federal income tax return. Contributions made by the employer (not those through payroll deduction) will be 100% tax deductible on the employer's business taxes under the employees benefits section.

## **Who has ownership of the HSA?**

HSA's are individually owned and individually controlled, regardless of who makes the contributions.

## **What can the HSA pay for?**

The HSA can be used to pay for qualified medical expenses under IRC Section 213d, tax-free. Non-qualified withdrawals are subject to income tax and a 10% penalty. At age 65, HSA funds may still be used for qualified medical expenses tax-free, but in addition may be used to supplement income tax-deferred without penalty.

## **Who is eligible to participate with an HSA?**

An eligible individual is one who:

- ❑ Is an active employee covered by the high-deductible health plan
- ❑ Is not covered by any other medical plan that is not a high deductible (e.g., on a spouse's plan)
- ❑ Is not entitled to benefits under Medicare
- ❑ May not be claimed as a dependent on another person's tax return.

## **Can an employer offer Flexible Spending Accounts (FSA's), and Health Reimbursement Arrangement (HRA) along with an HSA?**

Generally HSA's cannot be offered in conjunction with these other tax-advantaged programs. However, according to the preliminary IRS guidance, an HSA could be offered with the healthcare portion of the FSA if the latter was limited to benefits not covered by the high deductible health plan, or limited to benefits such as dental or vision. An HRA may also be implemented as long as the HRA did not pay any benefits prior to the employee meeting their deductible associated with their health plan.

## **Where are employer HSA contributions reported?**

Employer contributions are entered in box 12 of the W-2's for each participating employee. Employees will not claim these contributions as income.

## **How much can be contributed to an HSA?**

Employers, employees and/or their family members may contribute tax-deductible funds each year up to the maximum amount allowed by the IRS. This amount may not exceed \$3,000 for individuals and \$5,950 for families in 2009. For 2010, contributions may not exceed \$3,050 for individuals and \$6,150 for families.

### **Is there an exception to the contribution maximums?**

Yes. Individuals age 55-65 may make additional “catch-up” contributions up to \$1,000 annually in 2009 and thereafter. A married couple can make two catch-up contributions as long as both spouses are at least 55. Catch-up contributions will help individuals accumulate assets for retiree health expenses. Catch-up contributions can only be made into the primary account holder’s account. If your spouse qualifies to make a catch-up contribution, he or she must open a separate account.

### **How are distributions from a Health Savings Account taxed?**

Distributions from the Health Savings Account are not taxed if they are used exclusively to pay for qualified health expenses for the account beneficiary, spouse or dependents regardless whether they are participating in the HDHP.

### **Does an employer need to verify distributions?**

No. The participant needs to make the determination and should maintain records of their medical expenses to verify the expenses are for qualified services and therefore excludable from gross income. The Internal Revenue Service may request receipts during an individual tax audit. **Employers and plan administrators are not responsible or liable for misuse of the HSA dollars spent by the plan participants.**

### **Do contributions need to be the same for each employee?**

Contributions made by the employer must either be in like dollar amounts or same percentage of the deductible not to violate discrimination laws. Employee contributions, however, can be individually determined.

# First HSA

## Health Savings Account Enrollment

### Process

**Step 1:** Each eligible employee who is electing to open an HSA must complete a First HSA application regardless of the size of the company. Groups larger than 50 are required to submit the required fields electronically. First HSA will electronically send a batch file containing the required fields. Employers will copy from their existing employee data base these required fields and send them to First HSA electronically.

**Step 2:** Employer must determine the method of contributions. Contributions can be made in the following methods:

- ❑ Individual employee check
- ❑ Individual employee through Direct Deposit
- ❑ Employer check submitted with Employer Contribution Worksheet
- ❑ Employer contribution through a direct deposit
- ❑ Employee contributions through payroll deduction

Step 2 will be discussed in the following section:  
Contribution Methods

**Step 3:** The applications must be returned to First HSA, Processing Center at 2561 Bernville Road, Reading, Pa., 19605.

**Step 4:** Each individual employee will receive their own “Welcome Kit”. This kit is typically sent to the employee’s residence; however, the employer may elect to have the kits sent to the business address. Each “Welcome Kit” contains mailing labels, a copy of the employee’s application, disclosures, and helpful information concerning their HSA account.

**Step 5:** New employees must complete a First HSA application and return it to First HSA, Processing Center, 2561 Bernville Road, Reading, PA 19605. Groups larger than 50 will submit new employees electronically. Employers must notify First HSA via phone, fax, or email of any terminations.

## Contribution Methods

### Individual Employee Check

Individual employees may contribute to their HSA separate from their employer by sending a personal check and contribution coupon to First HSA.

### Employee contributions through payroll deductions:

All employee contributions set up through a payroll deduction must be set up as a pre-tax deduction. Following set up of payroll deduction, employer must then select from the following contributions options.

1. Employer Check along with Employer Contribution Worksheet
2. Employer contribution: Direct deposit, initiated by Employer OR initiated by First HSA. (see above explanations)

### Individual Employee through a Direct Deposit: Two Options

1. Direct Deposit initiated by First HSA: Individual must complete Direct Deposit section on original application, indicating amount to be pulled and requested draft date. They must also provide voided check with original application.
2. Direct Deposit initiated by individual: Following initial set up of individual's account, account holder must contact First HSA, and we will provide them with all necessary information needed in order to proceed with direct deposit, i.e. account numbers, bank routing numbers, bank name and address, etc.

### Employer Check submitted with Employer Contribution Worksheet

Employers with less than 50 employees may elect to send monthly, quarterly, semi-annual or annual contributions through their business account. Employers will submit an Employer Contribution Worksheet with the names, account numbers and the dollar amount of the contribution. An employer will write one check made payable to First HSA for the total amount of all the employee's contribution.

## Employer contribution through a direct deposit: Two Options

1. Direct Deposit initiated by First HSA: Company must provide a voided check, along with a group contribution worksheet indicating the amount to be deposited into each account, and the requested draft date.
2. Direct Deposit initiated by Employer: Following initial set up of individual group accounts, contact First HSA, and we will provide you with all necessary information needed in order to proceed with direct deposit, i.e. account numbers, bank routing numbers, bank name and address, etc.

**All subsequent contributions must be initiated by either THE EMPLOYER OR THE EMPLOYEE and can be submitted in the same manner as the initial contribution.**