

HEALTH SAVINGS ACCOUNT

HSA



EMPLOYER
NAME

NEW CLIENT
INFORMATION

2009

Helping You Avoid the Tax Bite

ZENITH
ADMINISTRATORS

HEALTH SAVINGS ACCOUNTS

A Health Savings Account (HSA) is a special type of individual account that an individual must establish with a qualified HSA trustee or custodian. Accounts administered by Zenith Administrators, Inc. are established with HSA Bank, Inc. You may also choose to open an HSA independently with a qualified Trustee or Custodian

An HSA allows you to pay for qualified medical expenses on a tax-free basis. Contributions may be made by you or your employer. Contributions made by the employer or with your salary reductions under a qualified Section 125 Cafeteria Plan are non-taxable. Direct contributions by you will qualify for an “above-the-line” deduction for federal income tax filing.

HSA account balances are nonforfeitable (they belong to you, no matter what) and automatically carry forward from year to year for future medical expenses. Investment earnings on HSA account balances are generally not taxed while held in the HSA, which means the accounts can grow on a tax-free basis. Therefore, HSAs offer three forms of federal tax savings: tax-free contributions, tax-free growth, and tax-free distributions for qualified medical expenses.

Important Information about Zenith’s HSA Administration

- ◆ Zenith uses HSA Bank, Inc. as the qualified HSA Custodian for the establishment of Health Savings Accounts.
- ◆ Your employer can contribute money to your HSA, or contributions can be made through a payroll deduction authorized by you. For employer contributions to be tax-free for you, the employer must have a qualified Section 125 Cafeteria Plan amended to allow for HSA contributions.
- ◆ Contributions (deposits) must be deposited by your employer into an employer-established bank account. Contributions may be made annually or per pay period. (You and your employer will be required to provide this information to Zenith using the attached *Enrollment Form & Salary Redirection Agreement* form. These contributions are then transferred to your established HSA account.

HSA Eligibility Requirements

In order to be eligible to open a Health Savings Account, you must be enrolled in a qualified High Deductible Health Plan (HDHP) through your employer.

You may not have any health coverage other than the HDHP except for the following types of permitted insurance. **Any other health coverage, including a general-purpose FSA or coverage under a spouse’s non-HDHP, disqualifies you from HSA eligibility.** Permitted coverage’s are:

- ◆ Insurance in which substantially all of the coverage relates to liabilities incurred under workers’ compensation laws, tort liabilities, liabilities relating to ownership or use of property (e.g. homeowner or auto insurance), or similar liabilities as specified by the IRS;

- ◆ Insurance for a specified disease or illness (e.g. cancer insurance);
- ◆ Insurance that pays a fixed amount per day (or other period) of hospitalization (e.g. hospital indemnity insurance); or
- ◆ Coverage for accidents, disability, dental care, vision care, or long-term care.

You cannot be claimed as another person's tax dependent.

You cannot be entitled to Medicare (Part A or Part B) benefits.

How do you establish an HSA?

In order to open a Health Savings Account, you must first enroll in the HDHP offered by your employer. After HDHP eligibility has begun, you are eligible to open an HSA with a qualified Trustee or Custodian such as HSA Bank (www.HSABANK.com).

You have several options after enrolling in the HDHP:

1. You may choose not to open an HSA at all.
2. You may choose to open an HSA independently with a qualified Trustee or Custodian outside of HSA Bank.
3. You may choose to open an HSA with HSA Bank. More information about how to do this is provided later in this brochure.

HSA Contributions

For 2009, the maximum annual HSA amount that can be contributed to your HSA from all sources is \$3,000 for an individual and \$5,950 for a family. If you are not covered by the HDHP for all months of the year, the contribution limit is pro-rated and applied monthly.

An additional "catch-up" contribution is permitted for employees age 55 or older at any time during the calendar year, unless/until they are covered by Medicare. For 2009, the catch-up contribution limit is \$1,000.

Employer contributions to HSAs on your behalf are allowed as a tax deduction to the employer for the taxable year in which contributions are made. Contributions made by the employer or by you through a cafeteria plan are excludable from gross income, are not subject to withholding for income tax, and are not subject to Social Security or Medicare taxes. The employer is required to report the amount of the HSA contribution on your W-2 statement.

If you contribute to the HSA on a post-tax basis, either through payroll deductions or direct deposits into the account, the amount of the contributions may be taken as an income tax deduction. However, in no event may the annual contribution amount exceed the limits stated above.

HSA Distributions

HSA distributions may be taken tax-free as long as they are for qualified medical expenses as defined in IRS Code 213d (partial list provided below). **You are responsible for maintaining records sufficient to show that any amounts withdrawn from the HSA were used for qualified expenses.** In the event of an IRS audit, if you cannot substantiate the tax-free nature of the distribution, the IRS will impose:

- ◆ Income tax on the distribution amount
- ◆ Additional 10% tax on the distribution amount
- ◆ Fees and penalties for non-compliance

Eligible Expenses

Expenses can be paid tax-free from an HSA if the expenses are for the diagnosis, cure, mitigation, treatment or prevention of disease. Some examples are below; see IRS Publication 502 for more information and a complete list.

Acupuncture	Chiropractic	Psychiatric care
Hospital services	Diagnostic fees	Over the counter medications
Ambulance services	Immunizations	Eyeglasses
Insulin	Contraception	Oxygen
Durable medical equipment	Hearing aids & batteries	Nursing services
Dental care	Prescription drugs	Contact lenses & solutions
Home care	Long-term care	Smoking cessation

Questions?

- ◆ Contact Zenith's HSA Department at 1-800-426-5980 at ext 471580 or 479526

OR

- ◆ See your Human Resources Representative

(EMPLOYER NAME)

CERTIFICATION OF HSA ELIGIBILITY

Employee Name:	SSN:	Date of Birth:
Address:		

I understand that in order (to establish / for my Employer to contribute to) a Health Savings Account (HSA) on my behalf, I must meet all of the following HSA eligibility conditions:

1. I have enrolled in Self-only coverage OR Family coverage under the (Employer Name) group health plan, which I understand qualifies as a high-deductible health plan (HDHP) per federal requirements.
2. I cannot be claimed as another person's tax dependent.
3. I am not entitled to Medicare benefits.
4. If I have any health coverage other than my coverage under the (EMPLOYER NAME) HDHP, that coverage is either (a) HDHP coverage (see paragraph A on reverse side of this form); or (b) permitted non-HDHP coverage (see paragraph B on reverse side of this form). Examples of impermissible coverage that would make me ineligible include coverage under my spouse's or partner's non-HDHP health plan, general-purpose Flexible Spending Arrangement (health FSA), or general-purpose Health Reimbursement Arrangement (HRA).
5. If I am married, my spouse does not have any non-HDHP family coverage that covers me. (See paragraph C on reverse side of this form.)

By signing this form and returning it to (EMPLOYER NAME) I certify that all of the statements above are true. I understand that I am not eligible (to make / for) HSA contributions during any month in which I do not meet all of the above HSA eligibility conditions, and I agree that I will notify the Employer immediately in writing if I cease to meet any of these conditions. I also understand that (EMPLOYER NAME) will make contributions to an HSA on my behalf on the basis of my certification and that the Employer's HSA contributions and my own HSA contributions are subject to certain aggregate limits under federal tax law.

Employee Signature

Date

A. HDHP coverage is health coverage that meets the following requirements:

- ♦ Self-only coverage: Self-only coverage is coverage of one individual. To qualify as HDHP coverage, it must have a deductible of at least \$1,150 for 2009 (as indexed for inflation) before any reimbursement is made for eligible medical expenses (other than preventive care). In addition, the sum of the deductible and other annual out-of-pocket expenses that the insured is required to pay (such as co-pays and co-insurance, but not premiums) cannot exceed \$5,800 for 2009 (as indexed for inflation).
- ♦ Family coverage: Family coverage is any coverage other than self-only coverage. Family HDHP coverage must have a deductible of at least \$2,300 for 2009 (as indexed for inflation). No amount can be paid (other than preventive care) until the minimum required family deductible has been satisfied (i.e. there cannot be an individual deductible within the family deductible that is less than the required minimum of \$2,300 for 2009, as indexed for inflation). In addition, the sum of the deductible and other annual out-of-pocket expenses that the insured is required to pay (such as co-pays and co-insurance, but not premiums) cannot exceed \$11,600 for 2009 (as indexed for inflation).

B. Permitted non-HDHP insurance or coverage is:

- ♦ Insurance in which substantially all of the coverage relates to liabilities incurred under workers' compensation laws, tort liabilities, liabilities relating to ownership or use of property (e.g. homeowner or auto insurance), or similar liabilities as specified by the IRS;
- ♦ Insurance for a specified disease or illness (e.g. cancer insurance);
- ♦ Insurance that pays a fixed amount per day (or other period) of hospitalization (e.g. hospital indemnity insurance); or
- ♦ Coverage for accidents, disability, dental care, vision care, or long-term care.

C. Special rule for married individuals:

- ♦ If your spouse has family coverage under another plan that covers you, this coverage must qualify as HDHP coverage in order for you to be eligible to make or receive HSA contributions. (For example, if your spouse has family coverage under an HMO or a low-deductible plan that covers you, or if your spouse participates in a general-purpose health FSA or HRA through his or her employer that covers you, then you would be ineligible for HSA contributions.) In addition, the amount of your HSA contributions may be limited by your spouse's HDHP coverage if you and your spouse are both HSA eligible. The rules regarding married individuals are complicated. See IRS Publication 969 for more information. (Go to www.irs.gov.) You may also wish to consult your tax advisor to determine what HSA contributions, if any, you and/or your spouse are eligible to make.

Disclaimer

Information in this Brochure is not intended as legal or tax advice. HSAs are authorized by federal legislation, and new laws may be passed which affect the tax benefits of an HSA. Refer specific questions about federal and state tax ramifications to your tax advisor.



ZENITH
ADMINISTRATORS

201 Queen Anne Avenue N
Seattle WA 98109-4896