

## HEALTH SAVINGS ACCOUNT BASICS

### **What are the benefits of a Health Savings Account (HSA) plan to my employees?**

An HSA-qualified plan provides a less expensive health insurance option for employees, while increasing their responsibility as healthcare consumers. With traditional insurance plan co-pays, individuals are often unaware of the true costs for medical services. High-Deductible Health Plans (HDHPs) encourage employees to seek less costly options for the same level of care, and those savings are passed along in reduced overall healthcare costs for the employer. Additionally, company contributions to employee HSAs are a business expense and are tax deductible to the employer.

### **Employer contributions to employee HSAs are exempt from the following:**

- Social Security taxes (6.2% of wages - up to a certain total which is specified each year)
- Medicare taxes (1.45% of total wages)
- Federal Unemployment Insurance taxes

### **Who is eligible to open a Health Savings Account?**

Eligibility to open a Health Savings Account requires the following:

Participants

- Must be enrolled in an HSA-qualified HDHP
- Cannot be covered by any other insurance that reimburses for health expenses (unless another HSA-qualified HDHP)
- Cannot be enrolled in Medicare or Medicaid
- Cannot be claimed as a dependent on another person's tax return
- Must be 18 years of age or older

### **As an employer, can I control how my employees spend their HSA funds?**

HSAs are individually owned and employees have full ownership and control of contributions to their account as soon as the funds are deposited (in the same manner as their wages are deposited to a personal checking or savings account). Employees are responsible for managing the account according to Internal Revenue Service (IRS) guidelines. An employer is not liable if an employee does not adhere to IRS contribution limits or guidelines for distributions.

### **How are HSA contributions treated for owners/shareholders of S corporations, partners in a partnership or limited liability company (LLC), or self-employed individuals?**

In any of these specific ownership/employment situations, individuals are not permitted to make pre-tax contributions to their HSAs through the company by salary deduction. In addition, any contributions made to their HSAs by the company are taxable as income. However, individuals are permitted to make personal contributions to their own HSAs and claim the deduction on their personal income taxes.

For tax-related questions about HSAs, please consult a tax advisor or the IRS.

## **Can couples establish a “joint” account and both make contributions to the account, including “catch-up” contributions?**

HSAs are individually owned, and “joint” accounts are not permitted. Contributions to an HSA can be used to cover qualified medical expenses for the account holder, spouse and any legal tax dependents. As a result, one account will cover expenses for both spouses.

Only one catch-up contribution may be made to an HSA per year for an owner age 55 or older who is not enrolled in Medicare. If both spouses are age 55 or older and wish to make catch-up contributions to maximize their savings, they would have to establish separate accounts in their individual names.

## **What happens to an HSA if an employee terminates from the company?**

Since HSAs are portable, former employees will keep their account and any funds in it for eligible medical expenses. If employees are no longer covered by an HSA-qualified HDHP they cannot contribute to their HSA. It is important to note that individuals may use HSA funds to pay for health insurance premiums while receiving unemployment. HSA funds can also be used to pay for COBRA continuation coverage.

Employers using Pivot can ‘terminate’ an employee’s account inside the portal. This ensures the employee is removed from your active roster and your invoice (if you are paying service fees on behalf of your employees).

## **ABOUT THE BANCORP HSA PRODUCT AND SERVICE**

### **Is The Bancorp’s HSA product FDIC insured?**

The Bancorp Bank is an FDIC-insured financial institution, and our HSAs are FDIC insured. We are headquartered in Wilmington, Delaware, and we rank as one of the leading HSA custodians in the U. S. To learn more about The Bancorp and our products and services, please visit [www.thebancorp.com](http://www.thebancorp.com).

### **Who will answer employer and employee HSA questions?**

Knowledgeable Customer Care representatives are available to assist with all HSA questions. Employees can contact us by email or by calling 24/7 using the toll-free number on their HSA website.

Employers can submit HSA-related questions to The Bancorp by sending an email to [ClientServices@thebancorp.com](mailto:ClientServices@thebancorp.com).

### **Who is responsible for paying any service fees that may be incurred on the HSA?**

Employers have the option to pay service fees on behalf of their employees or have the fee debited directly from employee HSAs. For more information on covering service fees on behalf of your employees, send an email to [ClientServices@thebancorp.com](mailto:ClientServices@thebancorp.com) prior to completing any HSA enrollments.

### **Where can I find information about your fees and rates?**

Your HSA-specific website contains current rates, a fee schedule and a list of product features. The Bancorp offers competitive interest rates on a tiered structure, so higher rates are earned as an HSA balance grows.

### **Is there a limit on the amount which can be withdrawn from an HSA on a daily basis?**

The Bancorp does set some limitations on withdrawals for security purposes. There is a \$500 daily limit for cash withdrawals and a \$1,500 limit for debit card spending. If an employee is anticipating a large expense for which a higher limit is required, please advise the individual to contact the Customer Care number found on the HSA website.

## **What happens if there is no activity in an employee's HSA?**

Inactive account status begins after 13 months when there is no customer-initiated or direct deposit activity on the account. A \$5 monthly inactivity fee will be charged beginning with the statement period following the 13th month. When an account is inactive for 24 months, banks are required by law to classify an account 'dormant.' The account will continue to be assessed the \$5 per month inactivity fee until The Bancorp escheats the money to the appropriate state (per banking regulations). When an account becomes inactive or dormant, a letter is sent to the customer on the date of the status change. To keep an account active, employees can check their balance at an ATM or speak with a Customer Care representative at the toll-free number shown on their HSA website.

## **As the employer, what information can I ask The Bancorp regarding my employees' HSAs?**

HSAs are individually owned and privacy regulations do apply. Although we cannot always share specific account information with a third party, we will provide authorized employer representatives with general guidance/confirmations.

## **How do my employees access their account information?**

New account holders will receive a welcome letter with all necessary information, including instructions for logging into their account online. They can also access account information via their statements or by calling Customer Care 24/7.

## **ENROLLMENT**

### **How can I encourage adoption of my HSA-qualified plan?**

The Bancorp offers a wide array of resources designed to help you boost your HSA adoption rate and service your employees with confidence and ease.

Visit the 'Employer and Administrator Tools' page on your HSA website where you will find enrollment and sales resources, HSA education options and more.

### **How long does it take to open an HSA with The Bancorp?**

Once all required information is received, we will process the application within 24 hours and most accounts are opened at that time. If the account information cannot be verified according to USA PATRIOT Act<sup>1</sup> guidelines, we will contact the employee to request further verification prior to opening the account.

### **What communications will my employees receive from The Bancorp?**

Within 7-10 business days after account opening, your employees will receive a welcome letter and signature card, along with all necessary materials to access and use their new HSA. Each of these mailings is described in your employer guide, accessible on the HSA website. For security reasons, account materials are sent separately in envelopes with The Bancorp's Wilmington, Delaware return address. We recommend that you advise employees to check their mail carefully for their account materials in the two weeks after opening an HSA.

<sup>1</sup> USA PATRIOT Act: In order to help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When an individual opens an account, we will ask for the applicant's name, address, date of birth, and other information that will allow us to confirm identity. We may also ask to see the applicant's driver's license or other identifying documents as necessary.

## **What happens if an employee doesn't sign and return the signature card?**

Banking regulations require us to have a valid customer signature on file. The signature card also serves to verify that an account holder's Social Security number is correct, as required by the IRS. The Bancorp will contact the plan member and request that the signature card be signed and returned. A reminder will also appear each time an account holder logs into his/her account online until the card has been returned. Without this documentation, processing delays can result for any transactions which may require us to verify a signature.

## **FUNDING**

### **As an employer, how much do I have to contribute to my employees' HSAs?**

You can contribute as much or as little as you wish to your employees' HSAs. Employer contributions are not required; however, HDHP adoption rates have been shown to dramatically increase even with nominal employer contributions. Employees are more likely to become engaged in using their HSA and reaping cost-saving benefits when their employer contributes at least a small amount to their account.

### **What are the options for funding my employees' HSAs?**

Several funding options are available for employers who wish to contribute to their employees' accounts. Please refer to the instructions provided in your employer guide on the website. Employees may also choose to contribute their own funds to their HSA at any time. The various deposit methods available to employees are also explained on the website.

### **Do HSA contributions have to be made in equal amounts each month?**

Employers may contribute a lump sum, or any amounts or frequency they wish. Employers using Pivot can contribute to employee HSAs by uploading a spreadsheet or by entering dollar amounts from the 'Online Contribution' page.

### **Do employers need to contribute the same amount to every employee's HSA?**

Employer contributions must be "comparable"--in the same dollar amount or same percentage of the employee's deductible--for all employees within the same "class." Employers may vary the contribution level for full-time versus part-time employees, and employees with individual coverage versus family coverage. It is not necessary to consider employees who do not have HDHP coverage as they are not eligible for HSA contributions.

### **If benefits are offered through a company's Section 125 plan, would the same comparability requirements apply?**

Section 125 plans (also known as "salary reduction" or "cafeteria" plans) must comply with a different set of rules. Under these plans, contributions (both from employer and/or employee) must meet "non-discrimination" rules. These rules require the employer to ensure that contributions do not favor highly compensated employees. If a company wishes to offer "matching" contributions, a Section 125 plan must be in place.

### **Is there a form for contribution elections?**

Many payroll processors are able to support direct deposit to an HSA from an employee's wages. If you are interested in offering this option to your employees, a Direct Deposit form is available for your internal company use under 'Managing Your HSA > Forms' on the HSA website.

## **Does my payroll company need to communicate with The Bancorp regarding direct deposit HSA contributions?**

The Bancorp is the receiver of any payroll deduction contributions and will apply each contribution as it is received. It is not necessary for your payroll company to advise us in advance when direct deposit arrangements are made.

## **Can my employees move funds from a previous HSA custodian into their new HSA with The Bancorp?**

An HSA transfer/rollover request form is available in the Forms Library of the HSA website. This printable form should be completed by the employee and returned to The Bancorp. Upon receipt, we will immediately process and send a request to the previous HSA custodian. The industry average for rollover funds availability from a previous custodian is approximately 6-8 weeks.

## **TAX INFORMATION**

### **How can employees ensure they are complying with annual HSA contribution limits set by the IRS?**

Account holders can view their account online or call Customer Care to determine total contributions to their HSA. Contributions include those made by the employee, the employer or from any other source. Employees are responsible for keeping track of all contributions to their account to prevent an over-contribution. Account holders can find current contribution limits on their HSA website or by visiting the IRS website.

### **Does The Bancorp provide the necessary government reporting for my employees' HSAs?**

The Bancorp is required to issue the following documentation annually:

- IRS Form 1099-SA which details distributions (withdrawals) made from the HSA during the tax year. This form is sent to the employee and the IRS by January 31.
- IRS Form 5498-SA which details contributions (deposits) made to the HSA during the tax year. This form is sent to the employee and the IRS by May 31 to include any prior-year contributions made through April 15.

Form 5498-SA is only for recordkeeping purposes. Employees do not need to include the form when filing their taxes. A year-end statement of all account activity within a calendar year is mailed to the employee in January. This is a helpful tool for tax filing as well.

Tax-related questions about HSAs should be directed to a tax professional or the IRS.

## HSA + FSA GUIDANCE (IMPACTS, INTERACTION AND COMPLIANCE)

### Is an employee eligible to open an HSA if s/he is covered by an FSA?

An employee is not eligible to open a new HSA or continue contributing to an existing HSA if s/he is actively covered by a Health FSA at the same time. Also, an individual is not eligible to contribute to an HSA if his/her spouse has a general purpose FSA that covers the employee's own medical expenses before the deductible is met.

IRS guidelines specify that "an individual cannot have an HSA if his or her spouse's FSA can pay for any of their medical expenses before their deductible is met." If the spouse is enrolled in a company-sponsored FSA plan, the employee would not be eligible for an HSA unless the spouse's FSA documents specify that the account will not reimburse for expenses incurred by anyone other than the account owner. The employee would be eligible to open an HSA if his/her spouse's FSA is a "limited-purpose" (covers only vision and dental expenses), transit, dependent care or "post-deductible" FSA.

### How does a Health or "General Purpose" FSA grace period impact HSA eligibility?

A Health FSA grace period allows employees to reduce their FSA balance to zero by the end of their plan if they wish to open and contribute to a new HSA. If they take advantage of a grace period, they will not be able to actively fund their HSA at the start of their new plan.

**For example:** If the new High-Deductible Health Plan begins on January 1, an employee would need a zero balance in the FSA by December 31 of the previous plan year. If any funds are carried into the grace period, the employee must wait until the first day of the month following the expiration of the grace period to begin contributing to the HSA.

### Do all FSAs cause eligibility issues with an HSA?

Health FSAs cause eligibility conflicts; however, individuals may contribute to their HSA if they are also covered by a "limited-purpose" FSA (coverage for dental and vision only). Individuals can contribute to their HSA if their employer has amended their plan design, changing the company's "general purpose" FSA into a "limited-purpose" FSA. Additionally, post-deductible, transit, and dependent-care FSAs do not pose a conflict with HSAs.

### How does the IRS rollover provision interact with HSAs?

Employers can choose to permit employees to take advantage of the \$500 FSA rollover allowance. If an employee decides to roll over FSA funds into the next plan year, **s/he will not be permitted to open or fund a new HSA for that entire year.** For that reason, it's important to educate employees about this potential conflict. It is recommended that employees avoid rolling over FSA funds if they intend to begin HDHP coverage with an HSA.