

# HSA

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**Health  
Savings  
Account**

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**Trust  
Booklet**

# HEALTH SAVINGS TRUST ACCOUNT

Form **5305-B** (Under section 223(a) of the Internal Revenue Code)  
(August 2004) Department of the Treasury Internal Revenue Service  
The account owner and the trustee make the following agreement:

Do Not File with  Amendment  
Internal Revenue Service

## Article I.

1. The trustee will accept additional cash contributions for the tax year made by the account owner or on behalf of the account owner (by an employer, family member or any other person). No contributions will be accepted by the trustee for any account owner that exceeds the maximum amount for family coverage plus the catch-up contribution.

2. Contributions for any tax year may be made at any time before the deadline for filing the account owner's federal income tax return for that year (without extensions).

3. Rollover contributions from an HSA or an Archer Medical Savings Account (Archer MSA) (unless prohibited under this agreement) need not be in cash and are not subject to the maximum annual contribution limit set forth in Article II.

## Article II.

1. For calendar year 2004, the maximum annual contribution limit for an account owner with single coverage is the lesser of the amount of the deductible under the HDHP but not more than \$2,600. For calendar year 2004, the maximum annual contribution limit for an account owner with family coverage is the lesser of the amount of the deductible under the HDHP but not more than \$5,150. These limits are subject to cost-of-living adjustments after 2004. Eligibility and contribution limits are determined on a month-to-month basis.

2. Contributions to Archer MSAs or other HSAs count toward the maximum annual contribution limit to this HSA.

3. For calendar year 2004, an additional \$500 catch-up contribution may be made for an account owner who is at least age 55 or older and not enrolled in Medicare. The catch-up contribution increases to \$600 in 2005, \$700 in 2006, \$800 in 2007, \$900 in 2008, and \$1,000 in 2009 and later years.

4. Contributions in excess of the maximum annual contribution limit are subject to an excise tax. However, the catch-up contributions are not subject to an excise tax.

## Article III.

It is the responsibility of the account owner to determine whether contributions to this HSA have exceeded the maximum annual contribution limit described in Article II. If contributions to this HSA exceed the maximum annual contribution limit, the account owner shall notify the trustee that there exist excess contributions to the HSA. It is the responsibility of the account owner to request the withdrawal of the excess contribution and any net income attributable to such excess contribution.

## Article IV.

The account owner's interest in the balance in this trust account is nonforfeitable.

## Article V.

1. No part of the trust funds in this account may be invested in life insurance contracts or in collectibles as defined in section 408(m).

2. The assets of this account may not be commingled with other property except in a common trust fund or common investment fund.

3. Neither the account owner nor the trustee will engage in any prohibited transaction with respect to this account (such as borrowing or pledging the account or engaging in any other prohibited transaction as defined in section 4975).

## Article VI.

1. Distributions of funds from this HSA may be made upon the direction of the account owner.

2. Distributions from this HSA that are used exclusively to pay or reimburse qualified medical expenses of the account owner, his or her spouse, or dependents are tax-free. However, distributions

that are not used for qualified medical expenses are included in the account owner's gross income and are subject to an additional 10 percent tax on that amount. The additional 10 percent tax does not apply if the distribution is made after the account owner's death, disability, or reaching age 65.

3. The trustee is not required to determine whether the distribution is for the payment or reimbursement of qualified medical expenses. Only the account owner is responsible for substantiating that the distribution is for qualified medical expenses and must maintain records sufficient to show, if required, that the distribution is tax-free.

## Article VII.

If the account owner dies before the entire interest in the account is distributed, the entire account will be disposed of as follows:

1. If the beneficiary is the account owner's spouse, the HSA will become the spouse's HSA as of the date of death.

2. If the beneficiary is not the account owner's spouse, the HSA will cease to be an HSA as of the date of death. If the beneficiary is the account owner's estate, the fair market value of the account as of the date of death is taxable on the account owner's final return. For other beneficiaries, the fair market value of the account is taxable to that person in the tax year that includes such date.

## Article VIII.

1. The account owner agrees to provide the trustee with information necessary for the trustee to prepare any report or return required by the IRS.

2. The trustee agrees to prepare and submit any report or return as prescribed by the IRS.

## Article IX.

Notwithstanding any other article that may be added or incorporated in this agreement, the provisions of Articles I through VIII and this sentence are controlling. Any additional article in this agreement that is inconsistent with section 223 or IRS published guidance will be void.

## Article X.

This agreement will be amended from time to time to comply with the provisions of the Code or IRS published guidance. Other amendments may be made with the consent of the persons whose signatures appear on the Application that accompanies this Agreement.

## Article XI.

**11.01 Your HSA Documents.** This Agreement for an HSA, and any amendments or additional provisions to such agreement, set forth the terms and conditions governing the account owner's HSA relationship with us. This Agreement will be accompanied by a disclosure statement, which sets forth various HSA rules in simpler language.

**11.02 Definitions.** This Agreement refers to you as the account owner (grantor), and us as the trustee. References to "you," "your," and "HSA owner" will mean the account owner, and "we," "us," and "our" will mean the trustee. Upon your death, your spouse beneficiary, if applicable, becomes "you" for purposes of this Agreement. In the event you appoint a third party, or have a third party appointed on your behalf to handle certain transactions affecting your HSA, such third party will be considered your agent and, therefore, "you" for purposes of this Agreement. Additionally, references to "HSA" will mean the trust account.

**11.03 Additional Provisions.** Additional provisions may be attached to, and made a part of, this Agreement by either party. The provisions must be in writing, agreed to by us, and in a format acceptable to us.

**11.04 Our Fees and Expenses.** We may charge reasonable fees and are entitled to reimbursement for any expenses we incur in establishing and maintaining your HSA. We may change the fees at any time by providing you with notice of such changes. We will provide you with fee disclosures and policies. Fees may be deducted directly from your HSA assets, and/or billed separately to you. Fees billed separately to you and paid by you may be claimed on your federal income tax return as miscellaneous itemized deductions. The payment of fees has no effect on your contributions. Additionally, we have the right to liquidate your HSA assets to pay such fees and expenses. If you do not direct us on the liquidation, we will liquidate the assets of our choice and will not be responsible for any losses or claims that may arise out of the liquidation.

**11.05 Amendments.** We may amend your HSA in any respect and at any time, including retroactively, to comply with applicable laws governing HSAs and the corresponding regulations. Any other amendments shall require your consent, by action or no action, and will be preceded by written notice to you. Unless otherwise required, you are deemed to automatically consent to an amendment, which means that your written approval is not required for the amendment to apply to the HSA. In certain instances the governing law or our policies may require us to secure your written consent before an amendment can be applied to the HSA. If you want to withhold your consent to an amendment, you must provide us with a written objection within 30 days of the receipt date of the amendment.

**11.06 Notice and Delivery.** Any notice mailed to you will be deemed delivered and received by you, five days after the postmark date. This fifth day following the postmark is the receipt date. Notices will be mailed to the last address we have in our records. You are responsible for ensuring that we have your proper mailing address. Upon your consent, we may provide you with notice in a delivery format other than by mail. Such formats may include various electronic deliveries. Any notice, including terminations, change in personal information, or contributions mailed to us will be deemed delivered when actually received by us based on our ordinary business practices. All notices must be in writing unless our policies and procedures provide for oral notices.

**11.07 Applicable Laws.** This Agreement will be construed and interpreted in accordance with the laws of, and venued in, our state of domicile.

**11.08 Disqualifying Provisions.** Any provision of this Agreement that would disqualify the HSA will be disregarded to the extent necessary to maintain the account as an HSA.

**11.09 Interpretation.** If any question arises as to the meaning of any provision of this Agreement, then we shall be authorized to interpret any such provision, and our interpretation will be binding upon all parties.

**11.10 Representations and Indemnity.** You represent that any information you and/or your agents provide to us is accurate and complete, and that your actions comply with this Agreement and applicable laws governing HSAs. You understand that we will rely on the information provided by you, and that we have no duty to inquire about or investigate such information. We are not responsible for any losses or expenses that may result from your information, direction, or actions, including your failure to act. You agree to hold us harmless, to indemnify, and to defend us against any and all actions or claims arising from, and liabilities and losses incurred by reason of your information, direction, or actions. Additionally, you represent that it is

your responsibility to seek the guidance of a tax or legal professional for your HSA issues.

We are not responsible for determining whether any contributions or distributions comply with this Agreement and/or the federal laws governing HSAs. We are not responsible for any taxes, judgments, penalties or expenses incurred in connection with your HSA, or any losses that are a result of events beyond our control. We have no responsibility to process transactions until after we have received appropriate direction and documentation, and we have had a reasonable opportunity to process the transactions. We are not responsible for interpreting or directing beneficiary designations or divisions, including separate accounting, court orders, penalty exception determinations, or other similar situations.

#### **11.11 Investment of HSA Assets.**

**(a) HSA Investment Options.** In our capacity as your HSA trustee, we provide various options concerning types of investments and investment direction. At the time you established or amended your HSA we provided you with one or all of the following investment options: deposit investments only, self-directed investments, or managed investments. This section describes each of the options. We will provide you with any required disclosures concerning your specific investments.

**(1) Deposit Investments Only.** If your HSA allows for deposit investments only, the deposit investments provided by us will be limited to savings, share, and/or money market accounts, and various certificates of deposit (CDs).

**(2) Self-directed HSA Investments.** If your HSA is self-directed, you may invest your contributions and HSA assets in various non-deposit investments. Non-deposit investments may include investments in property, annuities, mutual funds, stocks, bonds, and government, municipal and U.S. Treasury securities, and other similar investments. Most, if not all, of the investments we offer are subject to investment risks, including possible loss of the principal amount invested. Special disclosures concerning your investments will be provided to you.

**(3) Managed Trust.** If your HSA is managed by us we will provide you with a managed trust or agency agreement, or other similar document that sets forth the terms and conditions governing our investment relationship.

**(b) Investment of Contributions.** We will invest HSA contributions and reinvest your HSA assets as directed by you based on our then-current investment policies and procedures. If you fail to provide us with investment direction for a contribution, we will return or hold all or part of such contribution based on our policies and procedures. We will not be responsible for any loss of HSA income associated with your failure to provide appropriate investment direction.

**(c) Directing Investments.** All investment directions must be in a format or manner acceptable to us. You may invest in any HSA investments that you are qualified to purchase, and that we are authorized to offer and do offer at the time of the investment selection, and that are acceptable under the applicable laws governing HSAs. Your HSA investments will generally be registered in our name or our nominee's name (if applicable) for the benefit of your HSA. Specific investment information may be provided at the time of the investment.

Based on our policies, we may allow you to delegate the investment responsibility of your HSA to an agent by providing us with written notice of delegation in a format acceptable to us. We will not review or guide your agent's decisions, and you are responsible for the agent's actions or failure to act. We are not responsible for directing your investments, or providing investment advice, including guidance on the suitability or potential market value of various investments. For investments in securities, we will exercise voting rights and other similar rights only at your direction, and according to our then-current policies and procedures.

**(d) Investment Fees and Asset Liquidation.** Certain investment-related fees, which apply to your HSA, must be charged to your HSA and cannot be paid by you. We have the right to liquidate your HSA assets to pay fees and expenses, federal tax levies, or other assessments on your HSA. If you do not direct us on the liquidation, we will liquidate the assets of our choice and will not be responsible for any losses or claims that may arise out of the liquidation.

**11.12 Distributions.** Withdrawal requests must be in a format acceptable to us, and/or on forms provided by us. We may require you, or your beneficiary after your death, to provide documentation and a proper tax identification number before we process a distribution. These withdrawals may be subject to taxes, withholding, and penalties. Distributions will generally be in cash or in kind based on our policies. In-kind distributions will be valued according to our policies at the time of the distribution. Any distribution by check, debit card or other method approved by us will be reported as a normal distribution, unless we inform you otherwise or unless - at the time of the distribution - we provide you with a means to state otherwise and you in fact state otherwise. Our policies may permit us to accept the return of a mistaken distribution.

**11.13 Transfer and Rollover Contributions.** We may accept transfers, rollovers, and other similar contributions, remotely or in person, in cash or in kind from other HSAs and from Archer Medical Savings Accounts (MSAs). Prior to completing such transactions we may require that you provide certain information in a format acceptable to us. In-kind contributions will be valued according to our policies and procedures at the time of the contribution.

**11.14 Reports and Records.** We will maintain the records necessary for IRS reporting on this HSA. Required reports will be provided to you, or your beneficiary after your death, and the IRS. If you believe that your report is inaccurate or incomplete you must notify us in writing within 30 days following the receipt date. Your investments may require additional state and federal reporting.

**11.15 Termination.** You may terminate this Agreement without our consent by providing us with a written notice of termination. A termination and the resulting distribution or transfer will be processed and completed as soon as administratively feasible following the receipt of proper notice. At the time of termination we may retain the sum necessary to cover any fees and expenses, taxes, or investment penalties.

**11.16 Our Resignation.** We can resign at any time by providing you with 30 days written notice prior to the resignation date, or within five days of our receipt of your written objection to an amendment. In the event you materially breach this Agreement, we can terminate this Agreement by providing you with five days prior written notice. Upon our resignation, you must appoint a qualified successor custodian or trustee. Your HSA assets will be transferred to the successor custodian or trustee once we have received appropriate direction. Transfers will be completed within a reasonable time following our resignation notice and the payment of your remaining HSA fees or expenses. We reserve the right to retain HSA assets to pay any remaining fees or expenses. At the time of termination we may retain the sum necessary to cover any fees and expenses, taxes, or investment penalties. If you fail to provide us with acceptable transfer direction within 30 days from the date of the notice, we can transfer the assets to a successor custodian or trustee of our choice, distribute the assets to you in kind, or liquidate the assets and distribute them to you in cash.

**11.17 Successor Organization.** If we merge with, purchase, or are acquired by, another organization, such organization, if qualified, may automatically become the successor custodian or trustee of your HSA.

**11.18 Tax Year of Contributions.** Any transaction, including a remote transaction - such as a computer/internet, ATM, or night deposit transaction - that results in a regular contribution to the HSA is considered a current tax year contribution. However, we may allow you to specify the tax year for a regular contribution at the time of the contribution.

# IRS FORM 5305-B INSTRUCTIONS (8-2004)

## General Instructions

*Section references are to the Internal Revenue Code.*

### Purpose of Form

Form 5305-B is a model trust account agreement that has been approved by the IRS. An HSA is established after the form is fully executed by both the account owner and the trustee. The form can be completed at any time during the tax year. This account must be created in the United States for the exclusive benefit of the account owner.

Do not file Form 5305-B with the IRS. Instead, keep it with your records. For more information on HSAs, see Notice 2004-2, 2004-2 I.R.B. 269, Notice 2004-50, 2004-33 I.R.B. 196, Publication 969, and other IRS published guidance.

### Definitions

**Identifying Number.** The account owner's social security number will serve as the identification number of this HSA. For married persons, each spouse who is eligible to open an HSA and wants to contribute to an HSA must establish his or her own account. An employer identification number (EIN) is required for an HSA for which a return is filed to

report unrelated business taxable income. An EIN is also required for a common fund created for HSAs.

### High Deductible Health Plan (HDHP).

For calendar year 2004, an HDHP for self-only coverage has a minimum annual deductible of \$1,000 and an annual out-of-pocket maximum (deductibles, co-payments and other amounts, but not premiums) of \$5,000. For calendar year 2004, an HDHP for family coverage has a minimum annual deductible of \$2,000 and an annual out-of-pocket maximum of \$10,000. These limits are subject to cost-of-living adjustments after 2004.

**Self-only coverage and family coverage under an HDHP.** Family coverage means coverage that is not self-only coverage.

**Qualified medical expenses.** Qualified medical expenses are amounts paid for medical care as defined in section 213(d) for the account owner, his or her spouse, or dependents (as defined in section 152) but only to the extent that such amounts are not compensated for by insurance or otherwise. With certain exceptions, health insurance premiums are not qualified medical expenses. See Notice 2004-25, 2004-15 I.R.B. 727 for transition relief for

distributions for qualified medical expenses incurred in calendar year 2004.

**Trustee.** A trustee of an HSA must be a bank, an insurance company, a person previously approved by the IRS to be a trustee of an individual retirement account (IRA) or Archer MSA, or any other person approved by the IRS.

### Specific Instructions

**Article XI.** Article XI and any that follow it may incorporate additional provisions that are agreed to by the account owner and trustee. The additional provisions may include, for example, definitions, restrictions on rollover contributions from HSAs or Archer MSAs (requiring a rollover not later than 60 days after receipt of a distribution and limited to one rollover during a one-year period), investment powers, voting rights, exculpatory provisions, amendment and termination, removal of trustee, trustee's fees, state law requirements, treatment of excess contributions, distribution procedures (including frequency or minimum dollar amount), use of debit, credit, or stored-value cards, return of mistaken distributions, and descriptions of prohibited transactions. Attach additional pages if necessary.

# HEALTH SAVINGS ACCOUNT DISCLOSURE STATEMENT

**This Disclosure Statement.** This Disclosure Statement provides you, or your beneficiaries after your death, with a summary of the rules and regulations governing this HSA.

**Definitions.** The Health Savings Trust Account agreement contains a detailed definitions section. The definitions found in such section apply to this Agreement. It refers to you as the account owner (grantor), and us as the trustee. References to "you," "your," and "HSA owner" will mean the account owner, and "we," "us," and "our" will mean the trustee. Upon your death, your spouse beneficiary, if applicable, becomes "you" for purposes of this Disclosure Statement. In the event you appoint a third party, or have a third party appointed on your behalf to handle certain transactions affecting your HSA, such third party will be considered your agent and, therefore, "you" for purposes of this Disclosure Statement. Additionally, references to "HSA" will mean the trust account.

**For Additional Guidance.** It is in your best interest to seek the guidance of a tax or legal professional before completing any HSA establishment documents. Your first reference for questions concerning your HSA should be Internal Revenue Code (IRC) Section 223, other relevant IRC sections, and all additional Internal Revenue Service (IRS) guidance; IRS publications that include information about HSAs; any additional provisions or amendments to such documents; and this Disclosure Statement. For more information, you can also refer to the instructions to your federal income tax return, your local IRS office, or the IRS's web site at [www.irs.gov](http://www.irs.gov).

## HSA Restrictions and Approval.

- 1. Health Savings Trust Account Agreement.** This Disclosure Statement and the Health Savings Trust Account agreement, amendments, and additional provisions, set forth the terms and conditions governing your HSA. Such documents are the "Agreement."
- 2. Individual/Family Benefit.** This HSA must be for the exclusive benefit of you, your spouse, and your dependents and upon your death, your beneficiaries. The HSA must be established in your name and not in the name of your beneficiary, living trust, or another party or entity.
- 3. Beneficiary Designation.** By completing the appropriate section on the corresponding Health Savings Account Application you may designate any person(s) as your beneficiary to receive your HSA assets upon your death. You may also change or revoke an existing designation in such manner and in accordance with such rules as your HSA trustee prescribes for this purpose. If there is no beneficiary designation on file at the time of your death, or if none of the beneficiaries on file are alive at the time of your death, your HSA assets will be paid to your estate. Your HSA trustee may rely on the latest beneficiary designation on file at the time of your death, will be fully protected in doing so, and will have no liability whatsoever to any person making a claim to the HSA assets under a subsequently filed designation or for any other reason.
- 4. Cash Contributions.** Regular or annual HSA contributions must be in cash, which may include a check, money order, or wire transfer. It is within our discretion to accept in-kind contributions for rollovers, transfers, or similar transactions.
- 5. HSA Trustee.** An HSA trustee must be a bank, an insurance company, a person previously approved by the IRS to be a trustee of an individual retirement account (IRA) or Archer Medical Savings Account (MSA) or any other person approved by the IRS.
- 6. Prohibition Against Life Insurance and Commingling.** None of your HSA assets may be invested in life insurance contracts, or commingled with other property, except in a common trust fund or common investment fund.

- 7. Nonforfeitable.** The assets in your HSA are not forfeitable.
- 8. Tax-Free Rollovers.** You may be eligible to make a rollover contribution of your HSA or Archer MSA distribution, in cash or in kind, to an HSA. These and other potential rollovers to and from HSAs are described in greater detail elsewhere in this Disclosure Statement.
- 9. No Prohibited Transactions.** If you engage in a prohibited transaction, the HSA loses its tax exempt status as of the first day of the year. You must include the fair market value of your HSA as of that first day in your gross income for the year during which the prohibited transaction occurred, and pay all applicable taxes and penalties.
- 10. No Pledging.** If you pledge all or a portion of your HSA as security for a loan, the portion pledged will be treated as a distribution to you, and the taxable portion will be included in gross income, and may be subject to the additional 10 percent tax.
- 11. IRS Approval of Form.** This Agreement includes an IRS Forms 5305 series agreement. This IRS document has been approved by the IRS. This approval is not a determination of its merits, and not an endorsement of the investments provided by us or the operation of the HSA.
- 12. State Laws.** State laws may affect your HSA in certain situations, including deductions, beneficiary designations, agency relationships, consent, taxes, tax withholding, and reporting.

## HSA Eligibility.

- 1. Eligibility for an HSA.** You are an eligible individual and may make or receive an HSA regular contribution if, with respect to any month, you:
  - a. are covered under a high-deductible health plan (HDHP);
  - b. are not covered by any other type of health plan that is not an HDHP (with certain exceptions for plans providing preventive care and limited types of permitted insurance and permitted coverage);
  - c. are not enrolled in Medicare; and
  - d. may not be claimed as a dependent on another person's tax return.
- 2. High-Deductible Health Plan.** Generally, an HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. For purposes of this HSA, a high-deductible health plan is a plan with an annual deductible of at least \$1,100 for self-only coverage or \$2,200 for family coverage. These amounts are for 2007 and are subject to annual cost-of-living adjustments (COLAs).

For HSA purposes, the high-deductible health plan must limit out-of-pocket expenses. For 2007, the maximum out-of-pocket expenses, which include money applied to your deductible and your coinsurance for covered charges, must be no more than \$5,500 for self-only coverage or \$11,000 for family coverage. These amounts are subject to annual COLAs.

IRS Notice 2004-23 provides a safe harbor for the absence of a preventive care deductible. It states that a plan shall not fail to be treated as an HDHP by reason of failing to have a deductible for preventive care. An HDHP may therefore provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible.
- 3. Permitted Insurance.** You are eligible for an HSA if you have coverage for any benefit provided by permitted insurance. See IRS Notice 2004-2 for further information.

In addition, you are eligible for an HSA if you have coverage (whether provided through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care. If a plan that is intended to be an HDHP is one in which substantially all of the coverage of the plan is through permitted insurance or other coverage described in IRS Notice 2004-2, it is not an HDHP.

## HSA Contributions.

**1. Who Can Make Regular or Annual Contributions.** If you meet the eligibility requirements for an HSA, you, your employer, your family members, or any other person (including nonindividuals) may contribute to your HSA. This is true whether you are self-employed or unemployed.

**2. Regular or Annual Contributions.** The maximum annual contribution to an HSA is the sum of the limits determined separately for each month, based on status, eligibility, and health plan coverage as of the first day of the month. The maximum monthly contribution for eligible individuals is 1/12 of the annual contribution limit. For eligible individuals with self-only coverage under an HDHP, the 2007 annual contribution limit is \$2,850. For eligible individuals with family coverage under an HDHP, the annual contribution limit is \$5,650. These amounts are subject to annual COLAs.

Beginning in 2007, a provision is available if you are an eligible individual during the last month of the tax year, but are not an eligible individual for all months of the tax year. If so, you are treated as an eligible individual for all months of such tax year and may contribute up to such year's annual contribution limit. A testing period applies. The testing period for this provision begins with the last month of the contribution year and ends on the last day of the 12th month following such month. If you do not continue to be an eligible individual for the entire testing period, unless you die or become disabled, the amount of the contribution for the months you were not originally eligible will be includable in gross income for the year of the failure and is subject to a 10 percent penalty tax.

Also beginning in 2007, if you are an eligible individual, you may elect to take a qualified HSA funding distribution from your IRA to the extent such distribution is contributed to your HSA in a direct trustee-to-trustee transfer. This amount is aggregated with all other annual contributions and is subject to your annual contribution limit. A qualified HSA funding distribution election is irrevocable and is generally available once in your lifetime. A testing period applies. The testing period for this provision begins with the month of the contribution to your HSA and ends on the last day of the 12th month following such month. If you are not an eligible individual for the entire testing period, unless you die or become disabled, the amount of the contribution made under this provision will be includable in gross income for the tax year of the month you are not an eligible individual, and is subject to a 10 percent penalty tax.

If you have more than one HSA, the aggregate annual contributions to all the HSAs are subject to the contribution limit. This limit is decreased by the aggregate contributions to an Archer MSA. The same annual contribution limit applies whether the contributions are made by you, your employer, your family members, or any other person (including nonindividuals). Contributions may be made on your behalf even if you have no compensation or if the contributions exceed your compensation.

**3. Catch-up Contributions.** Catch-up contributions are HSA contributions made in addition to any regular HSA contributions. You are eligible to make catch-up contributions if you meet the eligibility requirements for regular contributions and are age 55 or older by the end of your taxable year and not enrolled in Medicare. As with the annual contribution limit, the catch-up contribution is computed on a monthly basis. The chart that follows shows these additional amounts.

Tax Year	Catch-up Amount
2007	\$ 800.00
2008	\$ 900.00
2009 and later	\$ 1,000.00

**4. One or Both Spouses Have Family Coverage.** You and your spouse are treated as having family coverage if either of you has family coverage. The contribution limit is divided equally between you and your spouse, unless each of you agree on a different division. The family coverage limit is reduced further by any contribution to an Archer MSA. However, each of you may make the catch-up contributions without exceeding the family coverage limit.

## 5. Contribution Deductibility.

**a. Your Contributions.** Contributions made by you to an HSA, which do not exceed the maximum annual contribution amount, are deductible by you when determining your adjusted gross income. You are not required to itemize deductions in order to take this deduction. However, you cannot also deduct the contributions as medical expenses under section 213. Contributions by family members or any other person (including nonindividuals) on your behalf are also deductible by you.

**b. Employer Contributions.** Employer contributions are treated as employer-provided coverage for medical expenses under an accident or health plan and are excludable from your gross income. The employer contributions are not subject to withholding from wages for income tax or subject to the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), or the Railroad Retirement Tax Act. Contributions to your HSA through a cafeteria plan are treated as employer contributions. You cannot deduct employer contributions on your federal income tax return as HSA contributions or as medical expense deductions under section 213.

**6. Contribution Deadline.** You may make regular and catch-up HSA contributions any time for a taxable year up to and including your federal income tax return due date, excluding extensions, for that taxable year. The due date for most taxpayers is April 15.

**Moving Assets To and From HSAs.** There are a variety of transactions that allow you to move assets to and from your HSA. We have sole discretion on whether we will accept, and how we will process, movements of assets to and from HSAs. We or the other financial organization involved in the transaction may require documentation for such activities.

**1. HSA-to-HSA Transfers.** You may transfer all or a portion of your HSA assets from one HSA to another HSA. An HSA transfer means that the HSA assets move from one HSA to another HSA in a manner that prevents you from cashing or liquidating the HSA assets, or even depositing the assets anywhere except in the receiving HSA. You may be required to complete a transfer authorization form prior to transferring your HSA assets.

**2. Archer MSA-to-HSA Transfers.** A transfer of Archer MSA assets to an HSA is permitted. However, HSA assets cannot be transferred to an Archer MSA.

**3. HSA-to-HSA Rollovers.** An HSA rollover is another way to move assets tax-free between HSAs. You may roll over all or a portion of your HSA assets by taking a distribution from an HSA and recontributing it as a rollover contribution into the same or another HSA. Rollovers to HSAs are not allowed from traditional or Roth IRAs health flexible spending arrangements (FSAs), and employer-sponsored retirement plans. You must report your HSA rollover to the IRS on your federal income tax return. Your contribution may only be designated as a rollover if the HSA distribution is deposited within 60 calendar days following the date you receive the distributed assets. You are limited to one rollover per HSA per 12 months. The distributing and receiving HSA, including the

HSA assets rolled over, are subject to this 12-month rule. The 12-month period begins on the day after you receive a distribution that will be properly rolled over into an HSA.

4. **Archer MSA-to-HSA Rollovers.** Rollovers from an Archer MSA to an HSA are permitted. However, HSA assets cannot be rolled over to an Archer MSA. The distributing MSA and receiving HSA, including the MSA assets rolled over, are subject to the 12-month rule.
5. **Health Reimbursement Arrangement (HRA)/Health Flexible Spending Account (FSA)-to-HSA Rollovers.** You may be allowed to roll over assets from your HRA or health FSA to an HSA. The rollover from your HRA or health FSA must be contributed by the employer directly to your HSA. This provision is available through tax-year 2011 if you are an eligible individual. A testing period applies. The testing period for this provision begins with the month of the contribution to your HSA and ends on the last day of the 12th month following such month. If you are not an eligible individual for the entire testing period, unless you die or become disabled, the amount of the contribution made under this provision will be includable in gross income for the tax year of the month you are not an eligible individual, and is subject to a 10 percent penalty tax.

**HSA Distributions.** You or, after your death, your beneficiary may take an HSA distribution, in cash or in kind based on our policies, at any time. However, depending on the timing and amount of your distribution you may be subject to income taxes and/or penalty taxes. HSA custodians/trustees are not required to determine whether HSA distributions are used for qualified medical expenses.

1. **Removal of Excess Contributions.** You may withdraw all or a portion of your excess contribution and attributable earnings by your federal income tax return due date, including extensions, for the taxable year for which the contribution was made. The excess contribution amount distributed will not be taxable, but the attributable earnings on the contribution will be taxable in the year in which the distribution is received. If you timely file your federal income tax return, you may still remove your excess contribution, plus attributable earnings, as late as October 15 for calendar year filers.
2. **Qualified Medical Expenses.** Qualified medical expenses are expenses paid by you, your spouse, or your dependents for medical care as defined in section 213(d) (including nonprescription drugs as described in Revenue Ruling 2003-102, 2003-38 I.R.B. 559), but only to the extent the expenses are not covered by insurance or otherwise. The qualified medical expenses must be incurred only after the HSA has been established.
3. **Death.** Upon your death, any balance remaining in your HSA becomes the property of the beneficiaries named in the HSA agreement.
  - a. **Spouse.** If your spouse is the beneficiary of your HSA, the HSA becomes his/her HSA as of the date of your death. We may require your spouse to transfer the assets to an HSA of his/her own. Your spouse is subject to income tax only to the extent distributions from your HSA are not used for qualified medical expenses.
  - b. **Nonspouse.** If your beneficiary is not your spouse, the HSA ceases to be an HSA as of the date of your death. If your beneficiary is your estate, the fair market value of your HSA as of the date of your death is taxable on your final return. For other beneficiaries, the fair market value

of your HSA is taxable to them in the tax year that includes such date. For such a person (except your estate), this amount is reduced by any payments from the HSA made for your qualified medical expenses, if paid within one year after your death.

#### **Federal Income Tax Status of Distributions.**

1. **Taxation.** Distributions from your HSA used exclusively to pay for qualified medical expenses of you, your spouse, or your dependents are excludable from gross income. In general, amounts in an HSA can be used for qualified medical expenses and will be excludable from gross income even if you are not currently eligible for contributions to the HSA. However, any amount of the distribution not used exclusively to pay for qualified medical expenses of you, your spouse, or your dependents is includable in your gross income and is subject to an additional 10 percent tax on the amount includable, except in the case of distributions made after your death, your disability, or your attainment of age 65. HSA distributions which are not rolled over will be taxed as income in the year distributed, unless they are used for qualified medical expenses. You may also be subject to state or local taxes and withholding on your HSA distributions.
2. **Earnings.** Earnings, including gains and losses, on your HSA will not be subject to federal income taxes until they are considered distributed.
3. **Ordinary Income Taxation.** Your taxable HSA distribution is usually included in gross income in the distribution year.

**Estate and Gift Tax.** The designation of a beneficiary to receive HSA distributions upon your death will not be considered a transfer of property for federal gift tax purposes. Upon your death, the value of all assets remaining in your HSA will usually be included in your gross estate for estate tax purposes, regardless of the named beneficiary or manner of distribution. There is no specific estate tax exclusion for assets held within an HSA.

**Federal Income Tax Withholding.** If federal withholding is applicable, the trustee may require the completion of a withholding election document.

**Annual Statements.** Each year we will furnish you and the IRS with IRS-required statements reflecting the activity in your HSA.

**Federal Tax Penalties.** Several tax penalties may apply to your various HSA transactions, and are in addition to any federal, state, or local taxes. Federal penalties and excise taxes are generally reported and remitted to the IRS along with your federal income tax return. The penalties may include any of the following taxes:

1. **Additional 10 Percent Tax.** Any amount of a distribution not used exclusively to pay for qualified medical expenses of you, your spouse, or your dependents is subject to an additional 10 percent tax on the amount includable in your gross income, except in the case of distributions made after your death, your disability, or your attainment of age 65. In addition, any failure to meet a required testing period resulting in amounts includable in gross income will make such amounts subject to an additional 10 percent tax.
2. **Excess Contribution Penalty Tax.** If a contribution to your HSA exceeds the amount you are eligible for, you have an excess contribution, which is subject to a 6 percent excise tax. The excise tax applies each year that the excess contribution remains in your HSA. If you timely file your federal income tax return, you may still remove your excess contribution, plus attributable earnings, as late as October 15 for calendar year filers.