Everence HSA Disclosure Statement

Everence®

This document discusses health savings accounts (HSAs) in general and your Everence HSA in particular. This publication only discusses the federal tax rules, and you should consult your tax advisor concerning the tax laws of your state.

Q1: What types of HSAs are available?

A1: 1. Investment HSA – This transactional credit union account gives account owners the ability to designate some of the money in the account for investing. Account owners can consider the long term while having money on hand for current health expenses. A $3 per month administrative fee will be deducted from your individual account, but there are no separate fees or sales charges for your investment transactions.

2. Standard HSA – If the investment option doesn't fit your needs and you'd prefer to avoid an administrative fee, there is a basic transactional credit union account.

Q2: What is a health savings account (HSA)?

A2: An HSA is a tax-exempt trust or custodial account that is created in the United States for the exclusive purpose of paying or reimbursing qualified medical expenses in connection with a high-deductible health plan (HDHP). The account must be designated as an HSA when it is created.

Contributions can only be made into an HSA for the benefit of an eligible individual. Employer contributions are tax-free, and the account owner generally gets an income tax deduction for contributions by anyone other than the owner's employer. Distributions from an HSA are tax-free if the money is used to pay or reimburse uninsured qualified medical expenses for the account owner, his or her spouse, or dependents.

Q3: When is my HSA established?

A3: The date your HSA is established is determined by the effective date of your HDHP and the day the custodian receives and accepts your properly completed and signed HSA application.

The date your HSA is established will be listed in the welcome letter sent to you by the custodian. However, if your HSA is established and funded by amounts rolled over or transferred from an Archer MSA or another HSA, the HSA is deemed to be established as of the date the prior HSA or MSA was established.

The established date for any additional HSA an account owner opens later is deemed to be the date the prior HSA was established by the account owner if the prior HSA has a balance greater than $0 at any time during the 18-month period ending on the date the later HSA is established.

Q4: Who is an eligible individual?

A4: An eligible individual is generally someone who:

a. Is covered by a qualified high-deductible health plan (HDHP);
b. Is not covered by any other health plan that is not a HDHP (with some exceptions for certain types of "permitted" coverage as outlined below);
c. Is not enrolled in Medicare benefits (Part A or Part B); and
d. Is not eligible to be claimed as a dependent on another person's tax return.

The HDHP coverage can be provided through an individual policy, the individual's employer, or the employer of the individual's spouse. Eligibility is determined as of the first day of each month.

An individual who receives Veterans Affairs medical benefits loses HSA eligibility for the next three months after receiving these benefits.

An individual who is covered by a health reimbursement arrangement (HRA) or by a flexible spending account (FSA) through a cafeteria (Section 125) plan, generally loses HSA eligibility. However, HSA eligibility is not lost if the FSA or HRA is coordinated with the HDHP. Your employer should be able to tell you if its FSA or HRA is properly coordinated with the HDHP.

An individual who is covered by a prescription drug plan (outside the HDHP) that pays benefits before reaching the minimum annual deductible discussed in A4 loses HSA eligibility.

In general, an individual loses HSA eligibility if he or she becomes covered by any other health plan that is not a qualified high-deductible health plan (whether as an individual, spouse, or dependent) unless that plan provides "permitted" coverage.

There are two types of "permitted" coverage:

a. The following "permitted" insurance is disregarded in determining HSA eligibility:
   - insurance for a specified disease or illness,
   - insurance paying a fixed amount per day (or other time period) of hospitalization,
   - tort liability insurance,
   - insurance for liabilities relating to ownership or use of property (such as automobile insurance),
   - insurance for liabilities incurred under workers' compensation laws, and
   - insurance for such other similar liabilities as the IRS may specify by regulations.
b. The following "permitted" coverage (whether provided through insurance or otherwise) is ignored in determining HSA eligibility:
   - coverage for accidents
   - coverage for disability
   - coverage for dental care
   - coverage for vision care
   - coverage for long-term care

In addition, HSA eligibility is not lost if an individual has coverage under:

- a discount card that allows the individual to obtain discounts for health care services or products, or
- an employee assistance program, disease management program, or wellness program that does not provide significant benefits for medical care or treatment.

Q5: What is a qualified high-deductible health plan (HDHP)?

A5: A qualified HDHP is a health plan that has:

a. For single coverage, an annual deductible of at least $1,350 for 2018 and 2019 and out-of-pocket expenses that do not exceed $6,650 for 2018 and $6,750 for 2019.
b. For family coverage, an annual deductible of at least $2,700 for 2018 and 2019 and out-of-pocket expenses that do not exceed $13,300 for 2018 and $13,500 for 2019.

These dollar limits are subject to cost-of-living adjustments for years after 2019. To determine the dollar limits in future years, visit the U.S. Department of the Treasury's website (treas.gov) and select the Resource Center. Select "FAQs," and then "Taxes."

Out-of-pocket expenses include deductibles, coinsurance, and copayments the participant must pay for covered benefits. For plans that use a network of providers, the annual deductible and maximum out-of-pocket costs are determined using the assumption that all services will be obtained inside the network. Out-of-pocket expenses do not include amounts above reasonable and customary, amounts you must pay after a plan benefit limit is met, penalties, and amounts not covered by the HDHP.

A plan is not disqualified as a HDHP merely because it does not have a deductible for preventive care. Preventive care includes such items as periodic physicals, routine pre-natal and well-child care, immunizations, smoking cessation programs, weight-loss programs, and health screening tests.

Q6: How much can I contribute to an HSA?

A6: The annual contribution limits, adjusted each year for inflation, are different for single and family health coverage. The annual contribution limit for single coverage is $3,450 in 2018 and $3,500 in 2019. The annual contribution limit for family coverage is $6,900 in 2018 and $7,000 in 2019. To determine the maximum contribution limits in future years, visit the U.S. Department of the Treasury's website (treas.gov) and select the Resource Center. Select "FAQs," and then "Taxes."

Eligibility is generally determined on a monthly basis as of the first day of each month. Under this rule, the monthly contribution limit is prorated and is 1/12th of the annual contribution limit. The individual's maximum annual contribution depends on the number of months the individual is eligible to make contributions during the year.

Example. Robert has single coverage under a HDHP for the first six months of 2019, and then loses coverage due to a change in jobs. His contribution limit for each month is $291.67 (1/12th of $3,500) and his contribution limit for 2019 is $1,750.

The one exception to the monthly eligibility rule is that a person who is an eligible individual for the last month of the person's tax year (December for a calendar-year taxpayer) is treated as having been an eligible individual during every month of the year. The person is treated as having been a participant in the same HDHP that covers the individual in the last month.

A penalty is imposed if a contribution is made for a person under the last month eligibility rule and the person does not remain an eligible individual until the end of the following tax year. In this case, the extra contributions that were made in reliance on the last month rule (which are pretax dollars in the HSA) are treated as taxable income for the year in which the

person became ineligible. These extra contributions are also subject to an additional 10 percent tax. This penalty is not imposed if ineligibility is caused by the death or disability of the eligible individual. These extra contributions are not treated as excess contributions, and they cannot be withdrawn from the HSA as an excess contribution.

Example. Elizabeth, age 37, was an eligible individual from October through December 2018, and she was not an eligible individual during any prior month in 2018. She could make HSA contributions for all 12 months of 2018 under the last month eligibility rule. If she continues to be an eligible individual for all of 2019, these 2018 contributions are treated like any other properly made HSA contributions.

Example. Margaret, age 42, was an eligible individual from October through December 2017. Margaret and her employer made 2017 contributions totaling $2,500, which is less than the 2017 maximum contribution of $3,400 for single coverage for someone under age 55. Margaret was laid off in August 2018, and as a result she was not an eligible individual at the end of 2018. In this case, her 2017 HSA contributions in excess of the allowed contributions for October through December would be included in her 2018 gross income, and would be subject to an additional 10 percent tax. The amount of this taxable income is $1,650. This is computed by subtracting her maximum contributions for the three months of eligibility during 2017 ($850) from the amount of 2017 regular contributions to her HSA ($2,500).

Q7: Is the contribution limit increased for older people?
A7: An eligible individual who will attain age 55 before the end of the year for which contributions are being made can contribute an additional amount that is known as a "catch-up contribution." Someone who meets this age test and is eligible for the entire year can contribute an additional $1,000. The catch-up contribution is subject to the monthly eligibility and last month eligibility rules described in A6.

Example. Robert (see the first example in A6) is 57 years old and is eligible for the first six months of 2019. His maximum catch-up contribution for 2019 is $499.98 ($83.33 per month times six months).

Q8: What if I am married and we have a family coverage HDHP?
A8: Special rules are used to determine the contribution limits of a married couple that is covered by a family coverage HDHP:

a. If family coverage under the HDHP is the only health plan the family has, then both spouses are eligible individuals.
b. If a family is covered by two family coverage HDHPs, and these are the only health plans the family has, then both spouses are eligible individuals.
c. If a family is covered by a family coverage HDHP and one spouse is also covered by a single coverage HDHP, then both spouses are eligible individuals. The single coverage HDHP is ignored in computing contribution limits.
d. If a family is covered by a family coverage HDHP and one spouse is covered by a single coverage plan that is not an HDHP or is covered by Medicare, then the spouse with the family coverage HDHP is treated as being covered by a family HDHP, and the spouse with a single coverage nonHDHP is not an eligible individual. This does not affect the family coverage contribution limit for the eligible spouse.
e. If one spouse has family HDHP health coverage and the other spouse has family coverage that is not an HDHP, then neither spouse is an eligible individual.

The family coverage contribution limit is divided between the spouses in the first three situations. The couple can divide this limit in any manner they want, including one spouse contributing the entire amount, except a catch-up contribution must be made to the HSA of the individual to whom it applies.

A spouse that is ineligible to make HSA contributions may still obtain the benefits of an HSA through the HSA of the other eligible spouse (see A18 and A19).

Q9: Can my employer contribute to my HSA?
A9: Your employer can use its own funds to contribute to your HSA if you are an eligible individual (see A3). Employer contributions are excluded from income tax to the extent they do not exceed the contribution limit (see A5 through A7). Employer contributions are also excluded from FICA, FUTA, the Railroad Retirement tax, and withholding. The amount you can contribute to your HSA is reduced by the amount contributed by your employer for the same year.

Q10: How can I make contributions to my HSA?
A10: You may make contributions by mail, electronically through direct deposit, through an employer's cafeteria (Section 125) plan (see A10), or in person at any Everence Federal Credit Union branch.

Q11: How do I know if I may make HSA contributions through a cafeteria (Section 125) plan?
A11: HSA contributions are permitted through an employer's cafeteria (Section 125) plan if the cafeteria plan includes this option. However, participation in a nonrestricted medical flexible spending account (FSA) makes you ineligible to contribute to

an HSA unless the FSA is coordinated with HSA rules. Your employer should be able to tell you if its cafeteria plan allows HSA contributions and whether the FSA component of the cafeteria plan is properly coordinated with HSA rules. HSA contributions made through a cafeteria plan will be forwarded to the custodian by the employer and are treated as employer contributions (see A8).

Q12: When can I make regular contributions to my HSA?

A12: You can make regular HSA contributions at any time from the beginning of the year up until the time prescribed by law for filing the tax return for the year, not including filing extensions. If you report income on a calendar tax year basis, the deadline for making a regular HSA contribution for a tax year is April 15 of the following year. If April 15 is a weekend or a legal holiday at the address to which you mail your federal tax return, then the deadline is the next business day. You can make a regular HSA contribution until this deadline even if you have already filed your tax return for the year.

HSA contributions made between Jan. 1 and April 15 will be treated as contributions for the current tax year unless you provide written notice on the check or contribution form that the contribution is for the preceding tax year. Contributions for the preceding tax year must be postmarked by the IRS tax filing deadline and may not be made electronically.

You can make regular HSA contributions periodically during the year, or in a single contribution for the year.

Q13: Can I deduct contributions to my HSA on my income tax return?

A13: You cannot deduct contributions made by your employer or contributions made through a cafeteria (Section 125) plan, since these contributions are made on a tax-free basis. You can deduct your contributions and contributions made by anyone other than your employer directly to your HSA that are within the contribution limits discussed above.

Q14: What other rules control my HSA contributions?

A14: No income limit. You can make HSA contributions regardless of your income if you are an eligible individual.

No age limit. You can make HSA contributions regardless of your age if you are an eligible individual.

Archer MSAs and other HSAs. The amount you can contribute to your HSA is reduced by the amount of Archer Medical Savings Account (MSA) contributions and contributions to other HSA(s) made for the same year. The Archer MSA was the pilot program for HSAs, and few people have Archer MSAs.

Cash contributions required. Regular HSA contributions must be made in cash (currency, checks, etc.). Contributions of stock or other property are not allowed.

Community and marital property laws. Community and marital property laws are disregarded for purposes of determining HSA contributions. You and your spouse must meet the qualifications for contributions individually.

Q15: Can I move money from one HSA to another?

A15: Direct transfer. You can move money between HSAs by having the assets directly transferred between the HSAs. You do this by instructing the fiduciary of your HSA to transfer the money directly to the fiduciary of another HSA in your name. You should set up the HSA that will receive the direct transfer before you start the direct transfer process. The “fiduciary” is the trustee, custodian, or insurance company that issues the HSA. A direct transfer is not subject to the once-a-year rule, and a direct transfer does not count as a rollover for purposes of applying the once-a-year rule to a later rollover.

Rollovers. You can move money between HSAs by withdrawing the money from your HSA and contributing part or all of the distribution to the same or another HSA in your name. You can roll over a distribution only if you meet these tests:

> **60-day rule.** You must contribute the money to an HSA within 60 days after you receive the distribution. The 60-day period may be extended if the money cannot be withdrawn from a financial institution because it is in financial trouble.
>
> **Once-a-year rule.** An HSA distribution cannot be rolled over if any other distribution from the same HSA has been rolled over during the preceding 365 days. An HSA distribution also cannot be rolled over if the distributing HSA has received a rollover contribution from an HSA during the preceding 365 days.

Q16: Can I move money from any other plans to my HSA?

A16: Archer MSAs. You can direct transfer funds from your Archer MSA to your HSA. You can also roll over a distribution from your Archer MSA to your HSA within 60 days after you receive the distribution.

Traditional and Roth IRAs. An eligible individual can use a direct transfer to move money from most traditional and Roth individual retirement accounts (IRAs) to an HSA. The exceptions are that the money cannot come from an IRA that will receive SEP or SIMPLE contributions from an employer whose tax year ends during the individual’s tax year.

An individual can generally make this type of direct transfer only once in a lifetime.

This type of transaction is considered a regular HSA contribution, and it reduces the other HSA contributions that can be made for the year in which the transaction occurs but it is not deductible.

The individual must remain eligible for the entire month of the transfer and the following full 12 months. Otherwise, the amount transferred will be treated as taxable income and subject to a 10 percent penalty, unless eligibility was lost due to death or disability.

Other tax-advantaged plans. There are no provisions in the tax laws that authorize a rollover or transfer to an HSA from a qualified retirement plan (QRP) or an education savings account (ESA). There are also no provisions in the tax law that authorize a rollover or transfer from an HSA to any other type of tax-advantaged saving arrangement.

Q17: What if too much is contributed to my HSA?

A17: If your employer made HSA contributions in excess of your contribution limit, the excess is included in your gross income. If you or someone else made HSA contributions in excess of your contribution limit, the excess is not deductible. In either case, you should address the excess contribution situation.

Withdraw the excess contribution before the early withdrawal deadline. Contributions that exceed the contribution limit for a year can be withdrawn tax-free up until the deadline for filing your federal income tax return for the year for which the contributions were made, including filing extensions. The earnings attributable to the withdrawn contribution must also be withdrawn, and are taxable income in the year in which they are received. A contribution that is permitted by tax laws, such as the last month eligibility and IRA direct rollover rules cannot be withdrawn under this rule.

If you timely filed your tax return for the year, then your deadline is automatically extended for six months after the original tax filing deadline. For example, if you filed your return by April 15, then you can withdraw the excess contribution until Oct. 15. You must file an amended tax return reflecting the tax effects of the transaction within three years after your filing deadline and write "Filed pursuant to section 301.9100-2" at the top of the amended return. The amended return must reflect the tax effects of the withdrawal (including a report of the earnings attributable) and include an explanation of the withdrawal.

Excess contribution tax. Excess contributions that are not withdrawn by the early withdrawal deadline are subject to a nondeductible 6 percent excess contribution tax for the year in which the contribution was made and each year thereafter until the excess contribution is eliminated.

Withdraw the excess contribution after the early withdrawal deadline. You can correct an excess contribution situation by receiving a taxable distribution from your HSA.

Q18: How can I take money out of my HSA?

A18: You may take a distribution from your HSA in the following ways.

Paper distribution request. You may submit a written distribution request on the form designated by the custodian. The custodian will mail the distribution check to you. A fee will apply to every paper distribution request. The fee is listed in the Everence Federal Credit Union fee schedule.

HSA checks. You may request HSA checks to pay for qualified medical expenses from your HSA share account. Your initial supply of checks will not be ordered until your HSA has a balance of $50. The charge for the checks (and any subsequent reorders) will be debited from your HSA share account. Information on the cost of purchasing checks is available from Everence.

HSA debit card. You may request an HSA debit card. The debit card may be used to pay for qualified medical expenses at health providers, as outlined in the Health Savings Account Debit Card Agreement and Disclosure Statement. Your request for an HSA debit card will be processed once there is activity on the account. There is no charge for the initial card.

Q19: How can I use the money in my HSA?

A19: The money in your HSA can be distributed tax-free up to the amount of the qualified medical expenses that you pay. Qualified medical expenses are amounts you pay for certain types of medical care for yourself, your spouse, and your dependents, but only to the extent such amounts are not paid by a health plan or otherwise reimbursed.

You can use an HSA distribution to pay or be reimbursed for any qualified medical expenses incurred after your first HSA was established, including expenses incurred in a prior year. HSA distributions are tax-free to the extent that the aggregate HSA distributions since you established your first HSA do not exceed the aggregate qualified medical expenses incurred during the same time period.

You are responsible for determining whether a cost is a qualified medical expense. You must keep records sufficient to show that:

a. The distributions were to pay qualified medical expenses or to reimburse you for qualified medical expenses you paid from other sources,

b. The expenses were not paid or reimbursed from another source (such as insurance), and

c. The expenses were not taken by anyone as a tax deduction.

Q20: What are qualified medical expenses?

A20: Qualified medical expenses are the amounts you pay for certain types of medical care – as defined in Internal Revenue Code (IRC) section 213(d) – for yourself, your spouse, and your dependents, but only to the extent such amounts are not paid by a health plan or otherwise reimbursed. You can pay the medical expenses of your spouse or dependent even if that person is covered by a health plan that is not a qualified HDHP or that person also has an HSA.

The uncovered portion of the cost of the following types of medical care is a qualified medical expense if it is incurred for you, your spouse, or your dependents:

a. The costs incurred for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body. This includes prescription and nonprescription drugs (limited eligibility after Dec. 31, 2010*) used for these purposes (but not nonprescription dietary supplements).
b. Transportation primarily for and essential to medical care referred to above.
c. Qualified long-term care services.
d. Premiums for health insurance obtained under the federal COBRA rules following termination of employment.
e. Qualified long-term care insurance premiums up to the amount that could be deducted if paid from another source under the limits in IRC section 213(d)(10).
f. Health insurance premiums while you are receiving unemployment compensation.
g. Premiums for health insurance after you are enrolled in Medicare, except for Medicare supplemental insurance.

Nonprescription drugs purchased on or after Jan. 1, 2011, are qualified medical expenses **only if you have obtained a prescription from your physician or other health care professional. Prescription means a written or electronic order for a medicine or drug that meets the legal requirements of a prescription in the state in which the medical expense is incurred and is issued by an individual who is legally authorized to issue a prescription in that state.*

Q21: What happens if HSA withdrawals exceed qualified medical expenses?

A21: Distributions in excess of qualified medical expenses are subject to income tax in the year in which you receive the money. These distributions are usually subject to an additional 20 percent tax, except that the additional tax does not apply (a) if you are disabled, (b) if you have reached age 65, or (c) after your death.

Q22: What happens to my HSA after my death?

A22: You may designate one or more beneficiaries to receive the balance of your HSA after your death. If you do not designate a beneficiary or if none of the beneficiaries you designate are alive on the day after your death, then your HSA will be paid to your surviving spouse. If you do not have a surviving spouse, then it will be paid equally to your children. If you are not survived by any children, then it will be paid to your estate. The community or marital property laws of your state may grant your surviving spouse a portion of your HSA regardless of your designation of beneficiaries.

If your spouse is the only beneficiary of your HSA, then your spouse will become the owner of the HSA. Upon notification of your death, any HSA investments will automatically be liquidated by the custodian and deposited in the HSA share account of your spouse beneficiary. Your spouse will be able to use the HSA to pay medical expenses or transfer the assets of the HSA to another HSA set up by your spouse.

If anyone other than your spouse is the beneficiary of your HSA, then the account ceases to be an HSA on the date of your death. The value of the HSA at the time of your death is generally included as income on the beneficiary's income tax return for that year. But the taxable amount is reduced by the amount of qualified medical expenses that were incurred by the decedent and were paid by the beneficiary who received the HSA within one year after the date of death.

If your estate is the beneficiary, then the value of the HSA at the time of your death is included as income on your final personal income tax return for the year of your death. The taxable amount is not reduced by the amount of medical expenses paid by the estate.

Q23: What are my responsibilities in connection with my HSA?

A23: You are responsible for making sure that the HSA contributions made to your HSA do not exceed your maximum contribution limit. You are responsible for making sure that the distributions that you receive from your HSA do not exceed the qualified medical expenses that you pay for yourself, your spouse, and your dependents. You are also responsible to properly report HSA information on your federal tax return as prescribed by the IRS and maintain records to prove to the IRS that your HSA contributions and distributions do not exceed applicable limits.

Q24: Do I have to pay an administration fee for my HSA?
A24: Investment HSAs are subject to a monthly HSA administration fee. The monthly fee is listed in the Everence fee schedule and will be debited from your HSA share account. There is no monthly administrative fee for a Standard HSA.

Q25: Do I have to pay any other fees for my HSA?
A25: Transaction or other specific fees may apply to your HSA. These fees are outlined in the Everence Federal Credit Union fee schedule and may be changed by the custodian upon 30 days' notice.

Q26: Who do I contact if I have questions about my HSA?
A26: Everence Federal Credit Union as custodian has an agreement with Everence Insurance Company to provide administrative services on behalf of the custodian with respect to Everence HSAs. You may direct all inquiries, instructions, and error allegations concerning your HSA and HSA reports to:

Everence HSA administration
P.O. Box 483
Goshen, IN 46527
Phone: (800) 348-7468 ext. 2460
Fax: (574) 537-3627
Email: hsaservice@everence.com

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