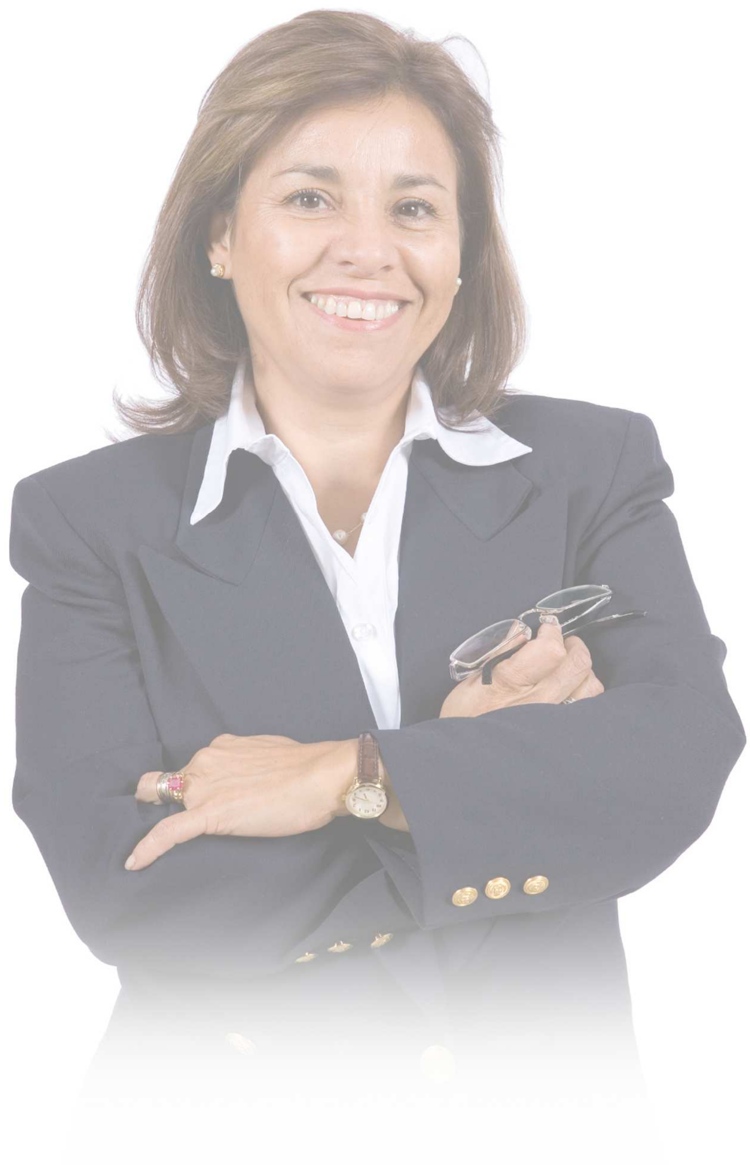
Information About A Personal, Tax-Free Health Savings Account



A Health Savings Account (HSA)
An HSA is an account into which you can deposit money to save for current and future medical expenses. There are advantages to depositing money into these accounts, including favorable tax treatment.

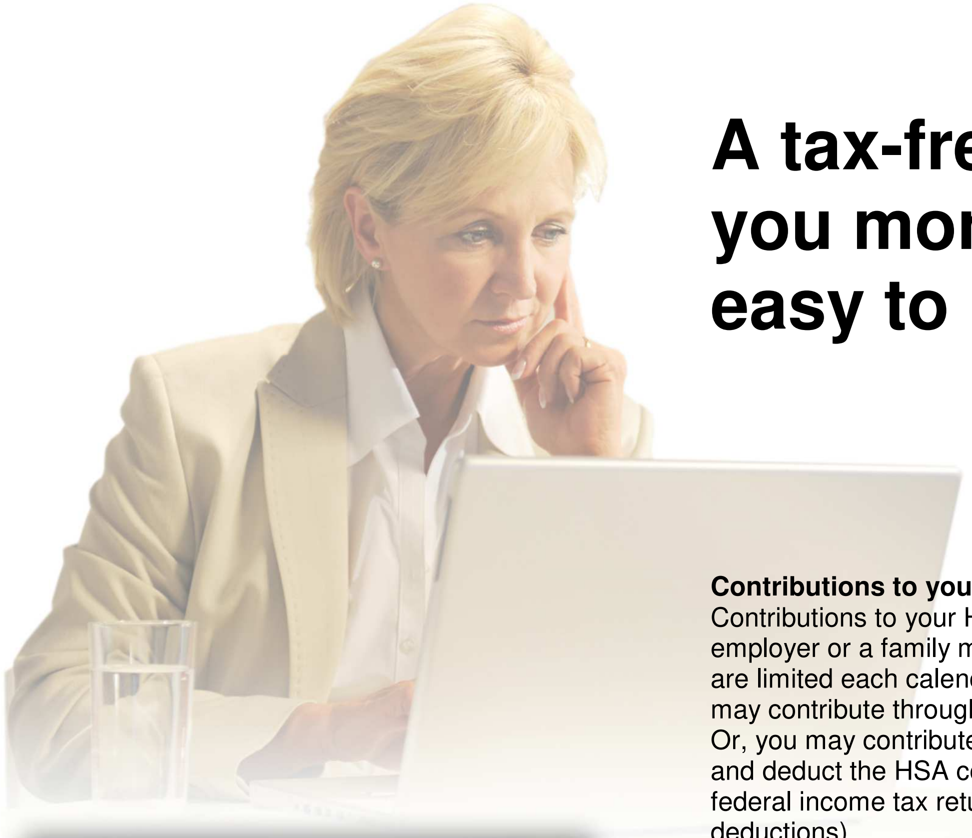
Who Can Contribute to an HSA?
Only individuals covered by a high deductible health plan (HDHP) and without other “first dollar medical coverage” may contribute to an HSA. Other first dollar coverage includes: a health plan that has first dollar co-pays, TRICARE, Medicare, general purpose FSA or HRA, or if the individual has received VA benefits or Indian Health Services in the last three months. *Effective January 1, 2016 individuals receiving VA benefits may contribute to an HSA if their VA benefits are the result of a service connected disability or for preventive care.* In addition, in order to be HSA eligible, the individual cannot be claimed as a dependent on someone else’s tax return. Other types of insurance like specific injury insurance/accident, disability, dental care, vision care or long-term care insurance are permitted.

High Deductible Health Plans (HDHP)
You must have coverage under an HSA-qualified HDHP to open and contribute to an HSA. Generally, this is health insurance that does not cover first dollar medical expenses. Federal law requires that the 2020 health insurance deductible be at least $1,400 for self-only coverage and $2,800 for family coverage.

In general, the deductible must apply to all medical expenses (including prescriptions) covered by the plan. However, plans can pay for “preventive care” services on a first-dollar basis. Preventive care may include routine pre-natal and well-child care, child and adult immunizations, annual physicals, mammograms, etc.

FlexBank Administrators
1250 W. Dorothy Lane, Suite 107
Dayton, Ohio 45409
Phone: 937.299.5515
Fax: 937.299.5609
Free Phone: 888.677.8373
www.flexbank.net

A tax-free HSA saves you money and is so easy to use.



Contributions to your HSA

Contributions to your HSA can be made by anyone; you, your employer or a family member. However, total contributions are limited each calendar year. If your employer permits, you may contribute through payroll deduction on a pre-tax basis. Or, you may contribute to your account on a post-tax basis and deduct the HSA contributions when completing your federal income tax return (even if you do not itemize deductions).

Contributions to the HSA for the year in which you enroll in other first dollar coverage (i.e. Medicare) must be prorated based on the number of months you are HSA-eligible. You have through April 15 of the following year to contribute up to this maximum. Also, you can keep the money in your HSA and use it to pay for future eligible medical expenses tax-free.

You can make a contribution to your HSA each calendar year that you are eligible. For 2020, you may contribute up to a maximum per calendar year of $3,550 self-only coverage and $7,100 family coverage.

Individuals age 55 and older can also make additional "catch-up" contributions. This includes your spouse who may be covered by your health plan without other first dollar coverage. Please note, a spouse's catch-up contribution must be made into an HSA in the spouse's name. The maximum catch-up contribution is $1,000 per calendar year per HSA.

Your *eligibility* to contribute to an HSA is generally determined by whether you have HDHP coverage on the first day of the month. Your maximum contribution for the year can be calculated two ways: (1) *the full contribution*, or (2) *the prorated amount*. The *full contribution* amount is based upon the type of coverage you have on December 1. The *prorated* amount is 1/12 of the maximum annual contribution for the HDHP coverage type you have times the number of months you have coverage. If your contribution is greater than the prorated amount, and you fail to remain covered by an HDHP for the entire following calendar year, the extra contribution above the prorated amount is included in income and subject to an additional 10 percent tax.

TAX FREE ACCOUNTS
FlexBank
ADMINISTRATORS

Maximum Contributions

- ✓ **2020:** $3,550/self-only; $7,100/family
- ✓ $1,000 "catch-up" for those age 55+
  Maximum contributions are per calendar year.

Contact FlexBank!

Call ***888.677.8373*** or
Email HSA@FlexBank.net
with your HSA questions!
Also, contact FlexBank regarding contribution rules if you have a change in coverage.

www.flexbank.net

Health Savings Account Sample Eligible Expenses

Eligible Expenses

Acupuncture
Alcoholism / Drug treatment
Ambulance charges
Arch supports
Arthritis gloves
Bandages / Band-Aids
Bariatric surgery
Birthing classes
Blood pressure monitors
Blood sugar test kits/strips
Body scans (MRIs)
Brace for knees, wrists, back
Breast pumps and supplies
Chiropractic fees
Compression hosiery
Contact lenses & solutions
Contraceptives
Co-pays / Co-insurance
Costs for physical or mental illness confinement
CPAP devices
Crutches / cane
Deductible expenses
Dental implants
Dental treatment
Dentures
Diabetic supplies
Durable medical equipment
Eyeglasses & eye exam
First aid kits
Hearing aids & batteries
Incontinence supplies
Infertility treatment/IVF
Insulin supplies
Laboratory fees
Laser eye surgery
Liquid adhesive for small cuts
Mastectomy related bras
Medical alert bracelet
Medical records charges
Midwife
Mileage
Motion sickness wristband
Occlusal guards
Orthodontia/Invisalign
Orthopedic shoe insert
Ostomy, colostomy supplies
Ovulation monitor
Physical therapy
Prescriptions
Pregnancy test kits
Psychiatric care
Reading glasses
Rehydration solution (Pedialyte for children)
Rubbing alcohol
Saline solution
Seeing eye dog & expenses
Shipping & handling for eligible medical expenses
Smoking cessation programs
Special communication equipment for the deaf
Speech therapy
Sterilization procedures
Sunscreen
Taxes on medical services & products
Telemedicine & online medical consultation
Telephone for hearing impaired
TENS machine
Thermometer
Transportation expenses primarily for medical care
Treatment for substance abuse
Vaccines
Walkers
Wheelchair & repairs
X-rays

Dual Purpose Expenses
Requires a doctor's note or Rx w/ a diagnosis stated

Air purifier
Dietary supplements
Fitness tracker
Health club dues
Humidifier
Hypnosis
Petroleum jelly
Massage therapy
Vitamins for medical condition
Waterpik
Weight loss programs

Over the Counter Medicines
Examples below, all require a valid prescription.

Acne medicine
Antacids
Antibiotic ointments
Anti-itch creams
Allergy medicines
Cold medicines
Diaper rash cream
Eye drops
Laxatives
Lice treatment
Motion sickness medicine
Pain relievers
Smoking cessation products
Wart remover treatments

Ineligible Expenses

"Concierge" annual fee
Cosmetic procedures
Court ordered DUI class
CPR class
Dental floss
Deodorant
Diet & weight loss foods
Electrolysis
Eyeglasses/contacts warranty
Face creams & moisturizers
Hearing aid warranty
Imported drugs
Insect repellant
Late fees
Marital counseling
Maternity clothes
Mattresses
Medical marijuana
Missed appointment fee
Mouthwash
Non-prescription sunglasses
Prepayments
Sunglass clips
Teeth whitening
Toothbrushes & toothpaste
Vitamins for general health

Eligible Premiums

Health insurance premium while receiving federal or state unemployment
COBRA or state continuation premiums
Qualified long term care insurance (as indexed by calendar year and age)
Medicare & retiree premiums (once HSA owner & insured if other than owner = age 65+; Medicare supplement plans not eligible)

Using Your HSA

- ✓ You can use the money in the account to pay, tax-free, for any "qualified medical expense" as permitted under federal tax law.
- ✓ In order to be considered an eligible expense, the date of service must be after the effective date of your high deductible health plan (HDHP) **and** after your HSA has been established (opened and funded). If your HDHP is effective mid-month, dates of service must be the first of the following month and forward in order to be considered eligible.
- ✓ You can use the money in the account to pay for medical expenses for yourself, your spouse and/or your dependent children.
- ✓ You may use your HSA funds for your "adult child" if they could qualify as your tax dependent (other than the income limitation).
- ✓ You can pay for expenses of your spouse and dependent children even if they are not covered by your health plan.
- ✓ Should you use your HSA for ineligible expenses, you must report these purchases on your tax return and pay taxes plus penalty. If you are 65 or older, you must only pay tax.
- ✓ You may withdraw funds from your HSA tax-free for eligible expenses even after you are no longer HSA-eligible.
- ✓ You may pay for your eligible expense out of your pocket today, then reimburse yourself from your HSA later. You may reimburse yourself at any time in the future. This is known as the "shoebox" rule.

This is a partial listing of eligible expenses. For more information email HSA@FlexBank.net or call FlexBank at 888.677.8373.

Advantages of HSAs

Security: Your high deductible health plan and HSA protect you against high or unexpected medical bills.

Affordability: In general, your health insurance premiums may be lower by switching to health insurance coverage with a higher deductible.

Flexibility: You can use the funds in your account to pay for current medical expenses or save the money in your account for future needs.

Savings: You can save the money in your account for future medical expenses and grow your account through interest earnings.

Control: You make all the decisions about:
- How much money to put into the account.
- Whether to save the account for future expenses or pay current medical expenses.
- Which medical expenses to pay from the account.
- Whether to invest any of the money in the account and which investments to make (if available).

Portability: Accounts are completely portable, meaning you can keep your HSA even if you:
- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state
- Change your marital status

Ownership: Funds remain in the account from year to year, just like a regular checking account. There are no "use it or lose it" rules for HSAs.

Tax Savings: An HSA provides triple tax savings:
(1) tax deductions when you contribute to your account;
(2) tax-free earnings through interest/investment;
(3) tax-free withdrawals for qualified medical expenses.

What happens to my HSA when I die?
Upon death, remaining HSA funds transfer to the HSA beneficiary. If your spouse is the beneficiary, your spouse becomes the owner of the account and can use it as if it were their own HSA. If the beneficiary is anyone other than your spouse, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate and be subject to any applicable taxes.

What do I need to file with my taxes?
In January, your custodial bank will send to you a report detailing distributions (Form 1099-SA).

In May, your custodial bank will send to you a report detailing contributions (Form 5498-SA). The form is mailed in May as you have through April 15 to make a contribution for the prior calendar year.

It is your responsibility to complete and file **Form 8889** and submit it along with your 1040.

What documentation must I keep for purchases?
The key to maintaining the tax-free status of your HSA is document … document …document! You will be required, if audited by the IRS, to produce documentation that clearly indicates you used the money in your HSA to purchase qualified expenses. The type of documentation required by the IRS must state the following:
- Who the item was purchased for (patient name)
- What service/product was provided (a description)
- Why the service/product was purchased (a diagnosis)
- Where the service/product was performed (the provider's name)
- When the service/product was purchased (the date of service)
- How much insurance paid, if any

FlexBank does not offer legal or tax advice. Please consult your legal or tax advisor for proper guidance.

When No Longer HSA-Eligible...

What happens if you are no longer permitted to contribute to an HSA?

If you are no longer eligible to contribute to an HSA, it is very important that you contact FlexBank. A few of the reasons you may no longer be permitted to contribute to an HSA are:

- ✓ You become covered by other health insurance coverage that is not an HSA-eligible high deductible health plan (HDHP). For example, a health plan that has co-pays for prescriptions and office visits.
- ✓ You enroll in Medicare (even Part A that is free).
- ✓ You enroll in TRICARE.
- ✓ You become covered by a general purpose Flexible Spending Account (FSA) or first dollar Health Reimbursement Arrangement (HRA) either at your place of employment or your spouse's place of employment.
- ✓ You begin receiving Indian Health Services.*
- ✓ You begin receiving VA Benefits not the result of a service connected disability or preventive care.*
  *Once 3 full months have passed without benefits, you may continue contributions.

How much can be contributed?

If you are HSA-eligible on December 1 of the calendar year, you may contribute the maximum as annually indexed by the IRS per calendar year: In 2020, the maximums are $3,550/single, $7,100/family. If you are 55 and older, you may make an additional "catch-up" contribution of $1,000 each calendar year.

HSA-ineligible mid-calendar year

If you become covered by another first dollar health plan and/or terminate HSA-eligible coverage during the calendar year, and you are not HSA-eligible on December 1 of that year, the maximum you may contribute is prorated based on the number of months you are HSA-eligible in that calendar year. You have until April 15 to contribute the maximum permitted to your HSA. ***For example:*** Meredith, age 30, has self-only HDHP coverage and is an HSA-eligible individual for the first four (4) months of 2020. The IRS maximum HSA contribution for an individual with self-only HDHP coverage for 2020 is $3,550. Meredith may contribute a maximum of $1,183.32 (4/12 x $3,550) to her HSA.

13-Month Testing Period

In the calendar year prior to becoming HSA-ineligible, if you made HSA contributions, under the full-contribution rule, and you do not remain HSA-eligible (for reasons other than death or disability) during the 13-month "testing period" (beginning with the December of the year for which those contributions were made and ending on the last day of the 12th month following that December), the amount which could not have been contributed except for this provision must be included in income and subject to a 10% additional tax. This 10% tax cannot be avoided by withdrawing such amounts from the HSA, even if the withdrawal were made by April 15.

For example: Joe joins an HSA-eligible health plan on June 1, 2019 and is HSA-eligible for seven (7) months. He contributes the maximum permitted of $7,000 for family coverage. Joe then enrolls in his spouse's plan on April 1, 2020. His 2020 contribution must be prorated to 3/12ths of the maximum (based on the number of months he is HSA-eligible). $7,100 / 12 months = $591.66 x 3 months eligible = $1,774.98. He must now review his 2019 contribution, as he did not remain HSA-eligible through December 2020 as required by the "13 month testing period". His 2019 contribution is now limited to 7/12ths or $4,083.31. He must include $2,916.69 ($7,000 2019 contribution less $4,083.31 permitted maximum) as income + the 10% penalty on his personal tax return.

How do I rectify if I over contribute?

If your contributions exceed the maximum permitted in a calendar year, you should remedy the situation (preferably prior to December 31 of the year in which you over-contributed) by asking the custodial bank for a distribution of the excess amount plus attributable earnings.

Step 1: Contact FlexBank for the custodial bank specific form to complete for excess contributions.

Step 2: FlexBank will contact the custodian and submit the paperwork detailing the amount of the excess contribution and request a distribution of the excess amount and attributable earnings (the earnings will be taxable).

Step 3: The custodian should report the distribution on Form 1099-SA as an excess contribution. If insufficient funds remain in your HSA, the custodian should report the earlier distributions as including an excess contribution, plus earnings.

Step 4: You should report the excess contribution as "other income" on your federal tax return if the contribution was made on a pre-tax basis.

While the custodian bank may require that you submit requests to rectify prior to December 31, the IRS technically notes that April 15 of the following year is the deadline to remedy the excess contribution. If you do not take these steps prior to April 15, you may be subject to an additional 6% excise tax.

What happens to the money in the HSA?

The individual owns the HSA, it is in your name and it is portable if you leave your employment or if you become HSA-ineligible. You may withdraw funds for qualified medical expenses on a tax-free basis even if you, at the time of distribution, are no longer an HSA-eligible individual.

Contact FlexBank

Contact FlexBank as you have questions. We can be reached by phone 937.299.5515 ~ 888.677.8373 or by email HSA@FlexBank.net.

FlexBank does not offer legal or tax advice. Please consult your legal or tax advisor for proper guidance.