



Employer Reference Guide

Health Savings Accounts

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For more information

If you have a question about your Health Savings Account (HSA) and can't find the answer in this guide, please contact your Humana representative.

Employees can reach Humana's Spending Account Customer Care team at 1-800-604-6228.

Health Savings Account

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Information in this guide is accurate as of August 2017, unless otherwise noted, and is subject to change. All coverage, benefit, and eligibility determinations are made based on the terms, conditions, and provisions of the plan document, not this guide. For administrator use only – not for distribution to the public.

Look for these boxes throughout your handbook for tips or more information on a key topic.

Overview

HSA and HDHP overview

Using your employer reference guide

This guide is designed to give you the information you need to implement a Humana HSA effectively. In addition, it provides guidance to help you and your employees make the most of this unique benefit option. Keep this guide handy throughout the plan year, and let us know if you have questions we didn't address. For tax implications and questions, contact your accountant or other tax professional.

HSA and HDHP basics

You and your employees can contribute to an HSA on a pre-tax basis. The account earns interest tax-free, and employees can use the funds tax-free for IRS-qualified healthcare expenses. Funds belong to your employees, even if they leave your company. Employees can continue to use HSA funds for qualified healthcare expenses or save those funds for future healthcare expenses. Interest-earning opportunities depend on the Humana HSA product you selected:

- Humana HSA ValueSM – An employee's account can grow in an interest-bearing savings account at UMB Bank.
- Humana HSA EnhancedSM – The account can grow in an interest-bearing savings account at UMB Bank, an investment account, a wide variety of mutual funds – or all three.

Throughout this guide, you'll see references to "UMB Bank," the custodian for your employees' HSAs. Employees who have the HSA Enhanced and choose to invest HSA funds go through UMB Financial Services.

UMB Financial Corporation (NASDAQ symbol UMBF) is a multi-bank holding company headquartered in Kansas City, Mo. UMB has a 104-year history, and it was one of the first banks in the country to offer Medical Savings Accounts – the predecessor of Health Savings Accounts.

Employees must be covered under a High-Deductible Health Plan (HDHP) to contribute to an HSA. According to the IRS, an “HSA-compatible” HDHP has certain features. See the IRS website for details.

- The minimum deductible and maximum out-of-pocket expense amounts are set by the IRS and are subject to change every year.
- All covered expenses, including prescriptions, have to apply to the same deductible and out-of-pocket maximum. Preventive services like yearly checkups may be covered before meeting the deductible.

For family coverage, the HDHP can have one of two types of deductibles:

- One deductible for the whole family – also called an “aggregate deductible” plan.
- A deductible for each individual, in addition to the family deductible – also called an “embedded deductible” plan.

NOTE: There could be cases where an employee has two claims on the same day and would have to pay for both, even though one of them satisfied the deductible. This situation may occur because some claims take longer to process than others, depending on when the provider bills Humana. In these situations, Humana adjusts the claims and reimburses the employee accordingly.

Advantages for employers

One of the main advantages of an HSA is reducing your FICA and federal unemployment tax liability. You’ll likely save on state taxes, too. Only Alabama, California, and New Jersey don’t recognize pre-tax contributions to the HSA at the state level.

Some other reasons to offer an HSA and HDHP to employees:

- Lower-cost plan – HDHPs typically have lower premiums than other plan types, so you can have more control over health benefits expenses.
- Contribution flexibility – You can contribute as much as you wish to employees’ HSAs, tax-free, within IRS guidelines.
- Tax deductibility – You can deduct contributions to employees’ HSAs.
- Ease of administration – Employees control their own accounts, so all you have to do is send employee payroll deductions to the account on behalf of the employee.

Advantages for employees

The HSA and HDHP also offer several advantages for employees:

- **Lower premiums** – HDHPs usually cost less than other kinds of health plans.
- **Save for now and the future** – Employees decide how much to put in their HSAs and what they use the money for. Since unused funds carry over from year to year, employees have an incentive to use their funds wisely.
- **Investment opportunity** – Money in an HSA earns interest depending on the employee's account balance and investment decisions. Investment options are not available in all HSA products offered.
- **Tax savings** – HSA contributions don't count toward the employee's taxable income, so they can make their healthcare dollars go further.

Implementation

HSA implementation

Implementation timeframe

The implementation timeframe varies for each customer. A Humana representative works with both new and current customers to determine an implementation timeline for adding the HSA to their benefits package. For larger employers, the Humana representative manages all aspects of implementation.

The implementation process can take approximately four to eight weeks from the date the Employer Election Form is completed. After your enrollment, Humana processes your employees' plan selections and issues Humana Access Cards to employees who selected the HSA.

Implementation documents

With assistance from your Humana representative, you must complete and return the Employer Group Application (EGA) to select benefits to be offered to employees – including HSAs. Be sure to indicate how much you'll contribute, if any, to your employees' HSAs – specifically the amount for single and family coverage.

Implementation process

A Humana representative will work with you to guide you through the implementation process.

The basic implementation steps are:

1. You complete the Employer Group Application (EGA) to select benefits and your enrollment option (paper, Web, or electronic file) and Employer Election Form (EEF) to select the HSA options. Each benefit has a separate component to complete. A Humana representative will submit the documents to Humana.
2. Humana begins setting up your benefits in our system.
3. Enrollment for your employees begins.
4. Once your employees are enrolled in Humana's systems, it typically takes three to five days before employees' accounts are established at UMB.

Employer fees and invoice

Customers who select Humana's HSA Enhanced product indicate responsibility for the monthly HSA administration fee when filling out implementation documents. If you choose to pay all or part of the monthly fee for your employees, the portion of the fees you pay will be included on the Humana invoice with all other premiums and charges. See the "Account fees" section for additional details on set-up fees, monthly fees, and special fees. The HSA Value product does not have a monthly administrative fee.

Funding and using

Employer contributions

Determining your contribution approach

If you're concerned about the immediate cash flow impact of your contributions, you'll be pleased to know you can contribute to employees' accounts in one of the following four ways:

- One lump sum
- Two payments during the plan year
- Prorated payments throughout the plan year
- Matched employee contributions

Tax implications for the options vary; consult with your tax advisor for details. Be sure employees know when and how much you are contributing, so they can determine their own contributions.

Accelerated HSA contributions

An employer may accelerate contributions to employees' accounts at the beginning of the year up to the amount elected by the employee. Any option to accelerate or prefund contributions to an employee's HSA must be equally available to all participating employees throughout the plan year and must be provided to all participating employees on the same terms.

After funds are contributed to an HSA, there are scenarios that allow employers to recoup these HSA contributions. The IRS has outlined three principles that must be adhered to in these situations:

1. There must be **clear documentary evidence** that an administrative or process error has been made.
2. The parties involved must **be restored to the exact position** that they would have been in had the error not occurred.
3. The employer is responsible for **maintaining the documentation** to support their assertion that a mistaken contribution occurred.

The burden of proof is upon, and will remain, the responsibility of the employer.

HSA employer matching

Employers have the option to match contributions to employees' HSAs – similar to how 401(k) accounts are typically funded. This encourages employees to participate in healthcare savings themselves.

Maximum annual contribution

If you choose to contribute to employees' accounts, you must follow Internal Revenue Service (IRS) guidelines. While the IRS doesn't limit the employer contribution itself, the total annual contribution – from the employer, employee, and anyone else – cannot exceed the IRS maximum annual contribution limits. See the IRS website for details as this information typically changes annually.

For more details on the maximum annual contribution for the HSA, see the "Employee contributions" section.

Contributing with a cafeteria plan/ non-discrimination testing rules

IRS code defines the various types of cafeteria plan benefits, as well as nondiscrimination rules. Cafeteria plans are subject to nondiscrimination rules to ensure that the nontaxable benefits provided do not favor highly compensated or key employees more than non-highly compensated employees. There are no exceptions to this rule based on how many employees you have or the number of employees participating in HSAs. Even if your organization is a nonprofit, you must perform this testing.

The plans must also comply with rules applicable to other accident and health plans. Chapters 1 and 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits, explain these requirements. This publication is available at IRS offices and on www.irs.gov.

The IRS defines "key employees" as:

- Officers with annual compensation greater than \$160,000
- Individuals with more than 5 percent ownership
- Employees with more than 1 percent ownership and annual compensation greater than \$150,000

The IRS defines "highly compensated employees" as:

- An officer
- A shareholder who owns more than 5% of the voting power or value of all classes of the employer's stock
- An employee who is highly compensated based on the facts and circumstances
- A spouse or dependent of a person described above

Contributing outside a cafeteria plan

If HSA contributions are made outside of a cafeteria plan – meaning, for example, that employees do not have the option to contribute to their HSAs via pre-tax payroll deduction – employers must follow the comparability rules. These rules ensure that HSA contributions are comparable for all employees participating in the HSA – meaning the same amount or the same percentage of the HDHP deductible. Comparability rules do allow for greater contributions to be made to non-highly compensated employees, but all non-highly compensated employees must receive the same contribution or percentage amount.

Comparability rules don't apply across the board for all employees – just for employees with the same employment status (full-time or part-time) and the same category of coverage (e.g., self-only or family).

If employer contributions aren't comparable, the employer is subject to an excise tax equal to 35 percent of the amount the employer contributes to employees' HSAs.

Contributions by a self-employed individual, partnership, or S-corporation

Self-employed individuals, partners, and more than two percent S-corporation shareholders aren't considered employees and cannot receive an employer contribution on a tax-free basis. However, they can deduct personal contributions made with after tax dollars on their individual tax return.

Contributions to HSAs for partners or self-employed individuals:

- Impact to the partnership/business entity – The partner or self-employed individual isn't eligible to participate in the salary reduction plan, so the partnership/business entity does not receive any tax savings for partner contributions.
- Impact to the partner/self-employed individual – All contributions are eligible to be deducted from the partner's/self-employed individual's taxable income, so the individual can receive the tax savings by deducting the HSA contributions on his or her personal tax return.

Humana does not offer tax advice. All employers – including S-corporations, sole proprietorships, and partnerships – should consult a tax advisor for details on implications.

Employee contributions

Eligibility for HSA contributions

An employee can only put money in an HSA when he or she meets four requirements. See the IRS website for details.

1. The employee is covered by an HDHP
2. The employee doesn't have coverage through any other non-qualifying health plan
3. The employee isn't enrolled for Medicare benefits; however, once individuals enroll in Medicare, they can spend money already in the account
4. The employee can't be claimed as a dependent on another person's tax return. This means an employee can't have coverage under a spouse's medical plan or a comprehensive healthcare spending account like an FSA. However, employees with an HSA can have a "limited" FSA that only covers vision, dental, and preventive care expenses. Read more about limited FSAs below. Children can't establish their own HSA. Spouses can establish separate HSAs, if eligible.

To avoid IRS penalties, make sure employees don't contribute to the HSA before the effective date of their High-Deductible Health Plan. Also keep in mind that employees can't use HSA money for healthcare expenses incurred prior to establishing the HSA.

An employer who contributes to employees' HSAs doesn't have to verify each employee's HSA eligibility before contributing to his or her HSA. The employer is only responsible for determining the following with respect to an employee's HSA eligibility and maximum annual limit on HSA contributions:

- Whether the employee is covered under an HDHP sponsored by that employer
- Whether the employee is covered under a non-HDHP sponsored by that employer – including a healthcare flexible spending account (FSA) or health reimbursement arrangement (HRA)
- The employee's age (because those older than 55 can make catch-up contributions); the employer may rely on the employee's representation about date of birth

The IRS has informally indicated that the burden of determining HSA eligibility falls almost entirely on the employee and that the employer won't be liable if it turns out the employee is ineligible for an HSA.

HSAs with a limited Flexible Spending Account

The Internal Revenue Service allows employees to have a “limited purpose” FSA that covers vision expenses, dental care, and preventive care services in conjunction with an HSA.

Employees who have an HSA and a limited FSA will receive a separate Humana Access Card for each account. The HSA card has the words “Health Savings Account” on the front; employees can use this card for medical, dental, and vision care providers, as well as pharmacies.

Because the FSA is limited, this card only works at dental and vision care providers. Employees can’t use the Humana Access Card to pay for preventive care services from the limited FSA, but they can request reimbursement from the limited FSA. There may also be instances when an employee has enrolled in a limited FSA and specifically earmarked the account for vision care expenses. However, if the vision care provider is a doctor such as an ophthalmologist, or if the provider’s Visa terminal has been coded as a doctor’s office, the transaction will pay from the HSA rather than the limited FSA. Members can contact Humana in this situation to have their accounts adjusted.

Permitted coverage

The plan types listed below don’t prevent employees from contributing to an HSA, because they’re not considered “other coverage”:

- Insurance under which most of the coverage relates to workers’ compensation laws, lawsuits, property ownership, or use of property – such as automobile insurance
- Insurance for a specified disease or illness, like a cancer policy
- Insurance paying a fixed amount per day – or other period – of hospitalization
- Coverage – whether through insurance or otherwise – for accidents, disability, dental care, vision care, or long-term care
- Drug discount cards
- Employee assistance program, disease management, or wellness program
- Eligibility for benefits through the U.S. Department of Veterans Affairs (“VA benefits”), unless the employee has actually received VA health benefits in the last three months

Maximum annual contribution

In general, an employee’s maximum annual contribution – including contributions from you, the employee, and anyone else – is based on the pre-set IRS maximum annual contribution. The following examples show how the type of coverage an employee has affects the maximum annual contribution.

Mid-year enrollment

The same maximum annual contribution applies for employees who enroll midway through the plan year. As long as the employee's HDHP coverage starts no later than the first day of December, he or she can contribute the full amount for the year. However, if the employee doesn't remain an eligible individual with HDHP coverage for at least 12 months after the end of the taxable year in which he or she made the contribution, the employee will have to pay taxes and penalties on HSA contributions for the months he or she wasn't covered by an HDHP.

Catch-up contributions

Employees who are at least 55 years old – including those who reach the age of 55 during the calendar year – are eligible for catch-up contributions. The “catch-up” amount is currently \$1,000 per year.

If an employee turns 55 during the calendar year, the catch-up amount isn't prorated based on his or her birth date. However, the catch-up amount is prorated if the employee doesn't have HDHP coverage for the entire year.

If an employee's spouse is also 55 or older, the spouse can set up his or her own HSA (if eligible) and take advantage of the catch-up contribution as well.

Contribution guidance – HSA Planner and Worksheet

Because some variables go into determining the IRS maximum annual contribution, Humana offers guidance to help employees:

- Determine their maximum annual contribution
- Evaluate their HSA-eligible expenses
- Estimate the tax benefits of their chosen contribution amount

Employees who enroll online have access to an HSA Planner in our Online Enrollment Center.

If your employees use a paper enrollment application instead of the Online Enrollment Center, they'll receive a paper HSA Worksheet. Employees need the benefit description for the HDHP to complete the worksheet.

Setting up paycheck deductions

To set up regular contributions to the HSA, the employee simply enters an election amount during enrollment. Unlike other spending accounts, employees can increase, decrease, or stop their payroll deduction for the HSA anytime during the plan year. Refer to the “contribution methods” section for additional details.

As a complement to the HSA enrollment materials, Humana has developed an easy-to-use “HSA Employee Authorization Form.” Employees can use the form to:

- Calculate their per-paycheck deduction based on contribution amount and pay schedule
- Authorize you to deduct HSA contributions from their paycheck

The form accommodates both calendar year and plan year designs.

HSA effective date

Employees can only use HSA funds for expenses incurred after their HSA effective date – which may be later than the HDHP effective date.

If the employee isn’t covered by an HDHP on the first day of the month, the HSA becomes effective on the first day of the following month. For example, if an employee enrolls on July 15, the HSA isn’t effective until Aug. 1 – even if his or her HDHP coverage starts right away. If an employee enrolls in an HDHP on the first day of the month, the HSA effective date is the same day.

Cash contributions

To make a “cash contribution,” employees can mail a check to UMB or set up a wire transfer to the HSA interest-bearing savings account. To make a check deposit, employees download a deposit slip on MyHumana, fill out the accountholder name and other required information, and then mail the deposit slip and check to UMB:

UMB HSA Processing
P.O. Box 219490
Kansas City, MO 64121-9490

With a cash contribution, the employee has already paid taxes on the money – so the employee can deduct the amount of the cash contribution on his or her tax return. Of course, employees need to make sure cash contributions don’t put them over the IRS maximum annual contribution.

Transfers from HSAs or MSAs

If an employee has an HSA or Archer Medical Savings Account (MSA) with another financial institution, the employee can transfer those funds into Humana's HSA. This kind of transfer doesn't count toward the maximum annual contribution. See the IRS website for details.

Employees have two ways to transfer funds to UMB:

- The current account custodian writes a check to the employee. The employee then has 60 days to deposit it into the UMB account. If the employee waits longer, the funds are subject to taxes and penalties. By law, this method is limited to one rollover per calendar year per account.
- The current account custodian sends money directly to UMB. Employees can download a "Trustee Transfer Slip" from the "Coverage & Spending" section of MyHumana. Account custodians are allowed to limit fund transfers and charge fees, but UMB doesn't have any transfer restrictions or transfer fees.

Transfers from an IRA

The IRS allows employees to make a one-time transfer to the HSA from an Individual Retirement Account (IRA) – unless it's a "Simple" or "SEP" IRA.

Some rules about IRA-to-HSA transfers:

- Transfers count toward the employee's maximum annual contribution for the HSA. This rule means the most an employee can transfer is his or her maximum annual contribution, less any other funds that were contributed during the same taxable year as the transfer.
- An employee can only transfer from an IRA to an HSA once during his or her lifetime.
- If the employee doesn't remain an eligible individual with HDHP coverage for at least 12 months after the transfer, he or she will have to pay taxes and penalties on the amount transferred.

See the IRS website for details.

Penalties for excess contributions

If an employee puts more in the account than allowed, the IRS imposes a six percent penalty on the excess contributions. Also, the employee must pay tax on the interest earned on those excess funds. Employees can avoid the penalty tax by withdrawing the excess amount from the HSA before the IRS tax filing deadline AND claiming the excess on the income tax form for that year as gross income.

UMB Bank, the financial institution that holds Humana's HSA, doesn't accept contributions over the IRS maximum annual contribution for family coverage plus one catch-up contribution. However, the bank doesn't have all the information necessary to prevent an individual employee from going over his or her specific maximum annual contribution. It's the employee's responsibility to stay within the IRS limits.

Transfers from another HSA don't count toward the maximum annual contribution. The IRS-allowed one-time transfer from an Individual Retirement Account (IRA) does count toward the maximum annual contribution.

As a reminder, the IRS says contributions made during any year when the employee is not eligible to contribute are excess contributions. See the IRS website for details.

Contribution methods

Overview of contribution methods

Employers can choose to handle HSA deposits in one of four ways:

- Online contribution portal
- Electronic File Transmission
- Check and List
- Through a payroll vendor

The following sections explain the process for each method, as well as advantages and disadvantages. This guide provides high-level information. Your Humana spending account representative will schedule a call to discuss the various methods with you.

Online contribution portal

Employers can access the online contribution portal by logging in to UMB's website. This method may be a good fit for you if you don't have the technical staff to support the electronic process and funds are deposited into the account within fifteen minutes.

How to set up this method

For more information about gaining access to the UMB contribution portal, please contact your Humana sales representative.

How to send contributions and funding

1. After you have access to the UMB portal, you can create a contribution file for employee and employer contributions on a scheduled basis or as a one-time contribution. Just click the link titled "Employer Contributions" under the "Healthcare Services" section.
2. You may choose to create a new file based on a list of your employees, submit a file using a previously created file, or import from an Excel spreadsheet.
3. The funding is provided from a bank account you have entered in the UMB portal. Funds are posted to employees' accounts within fifteen minutes.
4. Your Humana spending account representative will assist you through the process of accessing and setting up your account with UMB.

Electronic File Transmission

Humana-approved electronic transfer methods that are secure and compliant with both Sarbanes Oxley (SOX) and HIPAA. This method may be a good fit for you if you can meet the strict file-transfer requirements and you want to include all contributions – from the employer and employees – on a single file transmission.

How to set up this method

1. Choose “Electronic” on the Employer Election Form
2. Humana will e-mail a “Spending Account Contribution Data Specification” document to your designated contact
3. A Humana representative will follow up with your contact within one or two business days of the e-mail to discuss the specification document.
4. Humana will send an “Electronic Transmission Survey packet” to you
5. You then complete the survey to set up an electronic transmission arrangement with Humana, which can take up to two weeks

How to send contribution data and funding

1. You send the total HSA contribution funding to UMB. Funding should be sent to the following account: the routing number is 101000695, and the bank account number is 9871636569.
2. You send a contribution file to Humana with the required information.



With this method, employers need to collect information about each employee’s contribution amount. For that reason, Humana has created an “HSA Employee Authorization Form,” which gives the employer permission to deduct the HSA contribution from an employee’s paycheck, as specified on the form.

Check and List process

The term “Check and List” refers to a method by which you send a check to UMB, along with a list of contribution amounts and other key information for your employees who selected an HSA. This method may be a good fit for you if your systems don’t meet the technical requirements for electronic transfer.

How to set up this method

1. Choose “Paper” on the Employer Election Form.
2. Humana will send instructions further describing how to send contribution information by the check and list method.
3. After you send enrollment information to Humana, UMB sets up an account for each employee who selected an HSA. (This applies to all methods.)
4. UMB sends a welcome letter to the employee with the account number for his or her HSA; a Humana Access Card is mailed to the employee. (This applies to all methods.)
5. You access a report of each employee’s account number through the Employer Self-Service Center or collect the account numbers directly from each employee. If you would like to access the account number report, please contact your Humana sales representative to obtain access.
6. Send the list of employees, with the account numbers and dollar amounts of each contribution, along with one check for HSA contributions directly to UMB. The check amount must match the total contribution amount on the list of your employees with HSAs.

How to send contributions and funding

1. Send a check made payable to UMB
 - For overnight or express delivery (**preferred method**):
UMB Bank Attn: Lock Box
1008 Oak St.
Kansas City, MO 64106
 - For standard first class mail:
UMB HSA Processing
P.O. Box 219490
Kansas City, MO 64121-9490
2. Along with the check, send a list of employee names and contribution amounts to UMB. The list must include:
 - Tax year
 - Employer name
 - Key contact name
 - Key contact phone number
 - Employee names
 - Employee account numbers
 - Employee contribution amounts
 - Employer contribution amounts

- Total contribution for each employee
3. UMB uses the list to deposit the contribution amounts into each employee's HSA on the same day UMB receives the check and list. The amount of the check must correspond with the total of the list. Discrepancies in amounts will result in a delay of deposits.

Payroll vendor

You're welcome to use a third-party payroll company to handle HSA contributions. This method may be a good fit for you if you're already using a vendor and you want to give employees quick access to contributions. Most major payroll companies are familiar with UMB's HSA processes. However, a payroll vendor is still a third-party administrator (TPA). Also note that because you'll be depositing the funds directly into the accounts, the bank wouldn't have any way to differentiate employee vs. employer contributions; however, you should track this internally within your organization. Additionally, this method limits our visibility to the data. Therefore, we will not be able to assist in reconciling HSA contributions.

How to set up this method

- Work with your payroll vendor to confirm that the process is supported
- Provide the required information to the vendor, including the bank's routing numbers, employee account numbers, and paycheck deduction amounts

How to send funding

- The payroll vendor submits the employees' contributions – paycheck deductions – directly to the bank
- If the employer also wants to contribute, the payroll vendor may or may not be able to assist; the employer may need to use one of the other methods

Customer reports

HSA reports available to employers

If you are using the UMB contribution portal, you will access your reports on UMB.com.

Four reports are available:

- **Batch Details Report** – This report provides the details on a particular batch.
- **Employee Contribution Report** – This report provides details on the employee contribution history.
- **Account Summary Report** – This report provides the employer with aggregate data of employees' accounts.
- **Account Detail List** – This report provides the employer with a list of employees with HSA accounts as of a selected date.

How employees spend HSA funds

Qualified expenses

Employees can use HSA funds tax-free for IRS-qualified healthcare expenses, including doctor and hospital services, prescription drugs, dental care, and vision care. Qualified over-the-counter (OTC) healthcare items are approved, as well.

The IRS also allows employees to use HSA money for:

- COBRA continuation coverage premiums and any qualified healthcare expenses while they're on COBRA
- Any health plan coverage they have while receiving unemployment compensation
- Premiums and out-of-pocket expenses once they enroll in Medicare, except for "Medigap" premiums
- Qualified long-term care insurance premiums

For more details on qualified expenses, go to www.irs.gov or your local IRS office and look up IRS Publication 969.

With an HSA, employers can't put restrictions on IRS-approved qualified expenses, as they can with other spending accounts.

Funds used for nonqualified expenses

If employees use HSA funds for an ineligible expense, they'll pay tax on the ineligible amount, plus an additional 20 percent penalty tax. Employees, age 65 or over, who use funds for ineligible expenses will incur a 10 percent tax penalty.

If there is clear and convincing evidence that an employee took money from an HSA because of a mistake – and can prove the mistake was due to reasonable cause – the employee may be able to pay back the money with no penalties before the tax-filing deadline for the taxable year. Employees should check with a tax advisor for specific advice on handling this situation.

If an employee mistakenly takes money from the HSA for nonqualified expenses – for instance, if the employee overpaid a doctor with HSA funds and accidentally failed to deposit the refund check in the HSA – the employee can avoid tax penalties by paying back the money. The employee simply follows the process for a manual re-deposit, which won't count toward their annual maximum. In this situation, the employee has to re-deposit the money by the IRS tax filing deadline of the year after using the money by mistake. For more details visit www.irs.gov.

Availability of funds

Once an employee's HSA is effective, the employee can start spending HSA money immediately after it's deposited in the account. Even though employees must have an HDHP to contribute to the HSA, the underlying health plan has no impact on ability to use the funds. So, once the HSA is effective, employees can spend HSA funds for qualified expenses incurred after the effective date of the HSA – no matter what type of plan they have.

But remember: employees can't "pre-spend" HSA money. They only can withdraw funds that are actually in the account. If an employee has a large health expense at the beginning of the year, the employee can use HSA funds to pay as much as possible and then use personal funds for the rest. After more money is deposited in the account, the employee can get reimbursed.

Humana Access® Visa® Debit Card overview

For most transactions, the Humana Access Card is the fastest, easiest way to spend HSA funds. The card looks like any Visa debit card – except it only works at healthcare provider locations like doctors' and dentists' offices, pharmacies, and vision care providers. Employees can use the card for categories of services that are qualified expenses.

Employees can't use the card at "non-health-related" locations like restaurants or gas stations – even if they're buying a qualified item. Also, employees can't use the card at ATMs or get cash back at a store. Although the Humana Access Card is a debit card, it doesn't have a PIN and should be used as a credit card.

The Zero Liability feature guarantees maximum protection against fraud if a member's Humana Access Card is stolen and used for unauthorized purchases. After fraudulent behavior occurs, the cardholder simply notifies Humana. If the unauthorized purchase is truly fraudulent, the member is not financially responsible.

If the card is lost, the employee should alert us right away using the Humana Spending Account automated information line. Once we're alerted, we take steps to protect the account balance and get a new card to the employee immediately.

What employees should do when they receive the Humana Access Card

Humana sends the Humana Access Card to employees at their home address. When they receive the card, employees should:

- Call the toll-free activation number, which is on a sticker on the card, and follow the instructions on the recorded message
- Sign the back of the card
- Read and save the enclosed insert, which provides more tips on using the card

If an employee gets more than one HSA debit card, he or she only needs to activate one for both to work. By activating the card, the employee accepts the terms and conditions outlined in the cardholder agreement.

The Humana Access Card doesn't work until the employee calls a toll-free number to activate it. To help your employees avoid any inconvenience – like not being able to use the card the first time they pick up a prescription – it's a good idea to include card activation messages in pre- and post-enrollment communications.

Using the Humana Access Card

With a High-Deductible Health Plan, employees usually don't have a copayment at the doctor's office, urgent care center, or hospital. Instead, they should ask the provider to file the claim and then use their Humana Access Card to pay later.

To pay doctor's office bills with the Humana Access Card, employees should:

- Wait for the doctor to send a bill showing Humana's discounted rate and the member responsibility.
- Check the credit card payment box, write the card number and expiration date, and mail the bill back to the doctor – or give the card number over the phone.
- If the doctor's office doesn't take Visa debit card payments, employees can pay the balance another way – such as a personal check – and then get reimbursed from their HSA.

To use the Humana Access Card at a pharmacy for prescription drugs and over-the-counter healthcare items, employees simply:

- Present the card for payment or swipe it through the credit card machine
- Select "credit" as the transaction type
- Sign the receipt and save it for their records

Easy Pay Consent Form

Most providers don't mind waiting to send a bill after Humana processes the claim. However, providers are allowed to request payment up front – and some do. Employees can pay an estimated charge and then adjust the debit later, as described in the following section. However, the preferred method is to fill out an Easy Pay Consent Form.

The Easy Pay Consent Form gives a provider written authorization to debit the employee's account after Humana processes the claim and determines the member responsibility amount. Employees can limit the amount a provider can debit, specify a date range, or limit the number of transactions. The Easy Pay Consent Form can be found on Humana.com under the Humana Access Visa Debit Card information.

Adjusting for over- or under-payment

If a provider doesn't have an Easy Pay form, the employee can pay an estimated charge and then adjust it later. To do so, the employee should sign for the transaction, keep the receipt, and then watch for an Explanation of Benefits.

- If the employee paid too little – The doctor's office will send a bill for the balance. The employee can use the Humana Access Card to pay once the bill arrives.
- If the employee paid too much – The employee must return the excess amount to his or her spending account. The employee should ask the doctor's office staff to credit the Humana Access Card. If the provider sends a check instead, the employee should endorse the check (or deposit the check and write a check from his or her personal account for the same amount) and mail it to UMB with a deposit slip marked "redeposit." The deposit slip is available in the "Coverage & Spending" section of MyHumana. Employees should send redeposits to this address:

UMB HSA Processing
P.O. Box 219490
Kansas City, MO 64121-9490

Reasons the Humana Access Card may be declined

As long as the employee has activated the card and the employee has money in the account, the card should work like a charm. Here's an overview of reasons the Humana Access Card may not work:

- The employee pressed "debit" instead of "credit"
- The employee is using the card at a non-health-related location, such as a gas station
- The employee hasn't activated the card
- The employee's account doesn't have enough money to cover the total expense – for locations other than the pharmacy, the employee can use the card for the amount in the account and pay the rest another way; at the pharmacy, the employee needs to pay the entire amount another way and then request reimbursement
- The employee may be at a qualified merchant, but their payment software may not be set up correctly

If an employee's card is declined, and the employee thinks the expense qualifies, he or she can pay another way and then submit a reimbursement request.

Reimbursement from the account

When employees pay for a qualified expense with a personal check, credit card, or cash instead of the Humana Access Card, they can file for reimbursement in one of two ways:

- **Online** – Log in to MyHumana – each member's secure website on Humana.com – go to the "Spending Accounts" page within the "Coverage & Spending" section, and select "Request Reimbursement" under "Related links." Employees just follow the directions, enter the amount they want reimbursed, and choose reimbursement by direct deposit or check. When employees choose direct deposit, they need to specify an account number and routing number for the account they want the money deposited in; they should receive reimbursement within two to five business days. Employees who choose the paper check option should receive a reimbursement check at their home address in seven to ten business days.
- **By phone** – Call the automated spending account Customer Service line at 1-800-604-6228. Employees simply follow the prompts and enter the amount they want reimbursed.

Expense verification

Every time employees use HSA funds, they need to keep a detailed receipt. The reason is that the IRS may contact employees for proof that an expense was qualified. In addition, employees need to show that they didn't take an itemized deduction for the same expense or receive reimbursement from another source.

Regardless of where and how employees use HSA funds, they should always save a detailed receipt for verifying expenses if the IRS requests documentation. There's no time limit on when the IRS can request a receipt. Over-the-counter (OTC) medications, like pain relievers, cold medicine, and antihistamines, require a prescription to be paid through your HSA. You should also keep a copy of the prescription for these items with your records.

A valid receipt shows:

- Date of service
- Description of service
- Name of person who received the service
- Name of service provider
- Total expense amount

For some services, like doctor's office visits, employees can use an Explanation of Benefits (EOB) instead of a receipt. Employees can view and print an "electronic EOB" in MyHumana by going to the "Claims" page within the "Coverage & Spending" section and printing the "Details" page for the claim.

Earning money on HSA funds

Interest-bearing savings account

With both the HSA Value and HSA Enhanced, employees' HSA paycheck deductions go into an FDIC-insured, interest-bearing savings account at UMB Bank. Check with your Humana representative for current rates. Interest rates are subject to change at any time. Employees can leave the money in the savings account or spend it on eligible healthcare expenses.

Employees can find current interest rates for the UMB interest-bearing savings account in the "Coverage & Spending" section of MyHumana.

If you offer the HSA Enhanced product, employees who have more money in their interest-bearing cash account than they need to cover healthcare expenses and account fees can invest excess funds in an investment account. See below for more details. Unless employees open an investment account, all contributions to their HSA remain in their interest-bearing cash account at UMB. An employee can have a cash account and an investment account at the same time.

Self-directed investment account (HSA Enhanced only)

Once an employee's HSA cash account balance reaches at least \$1,000, the employee has the option to move funds to an investment account through UMB Financial Services. Employees have a choice of mutual funds from several mutual fund families. As with the cash account, capital gains on the investment account are tax-exempt.

To open an investment account, the employee must have at least \$1,000 in his or her accounts. A link to HSA investments is in the "Coverage & Spending" section of MyHumana. The link takes employees to the UMB Financial Services website, where they can sign up for an investment account and use online tools to help with choosing investments. Employees can also call UMB to set up an investment account.

While this option could yield greater returns than a savings account, it's important to know that mutual funds are not federally insured, and capital gains are not guaranteed. See the next section for additional information about fees with each kind of account.

Other Information

Member education and resources

Account fee overview

When you choose the HSA and High-Deductible Health Plan combination for your company, Humana oversees the administration of both your health plan and your employees' HSAs, which are managed by our partner bank, UMB. Because the HSA is a bank account, the bank charges certain fees – as they do with a personal checking or savings account. An overview of fees follows. Fees are subject to change.

Account set-up fee

HSA Value

- Fully insured customers – \$0
- Self-insured customers – Varies; a one-time set-up fee may apply

HSA Enhanced

- Fully insured customers – \$0
- Self-insured customers – Varies; a one-time set-up fee may apply

Monthly administration fees

HSA Value

- \$0 per month per account

HSA Enhanced

- \$3.50 per month per account; may be paid by the employer, the employee, or combination of both
- Investment account – no monthly fee

As the table above shows, the monthly fee for HSA Enhanced can be paid in one of three ways:

Scenario	Monthly charge to employer	Monthly charge to employee
Employer pays 100%	\$3.50	\$0.00
Employer pays 50%	\$1.75	\$1.75
Employer pays 0%	\$0.00	\$3.50

Special fees

These fees below apply to both HSA Value and HSA Enhanced unless indicated with a * symbol. These fees are the responsibility of the employee and subject to change.

Humana Access Card transactions	No charge
Overdrafts / returned items / insufficient funds	\$25 each item
Wire transfer – a deposit or withdrawal via wire transfer	\$10 each transfer
Account closing	\$25 each account
Return deposit – a deposit sent directly to UMB fails to clear	\$3 each check
Check reimbursement – when an employee requests a check from UBM, rather than using Humana’s website or toll-free phone number	\$15 each check
Excess contribution – cost to handle and return deposits above the maximum annual contribution for family coverage plus one catch-up contribution	\$15 each deposit until member changes election amount or removes excess funds
*Investment Trade Fee – purchase or sale of mutual funds	\$3 per month
*Recurring investment purchases equal to or greater than \$100	\$2 each purchase

Closing the account

If an employee ever needs to withdraw all money from the interest-bearing savings account or close the account altogether, the account closure form is available in the “Coverage & Spending” section of MyHumana.

If an employee cancels the account within seven days of set-up, the employee can avoid account closure fees. In this situation, employees should call Customer Care at 1-800-604-6228 or send a written notice to:

UMB Bank, n.a.
P.O. Box 419226
Kansas City, MO 64141

If the employee mails a notice, we consider the postmark date, or date of certification or registration, as the date of delivery – as long as the employee follows normal mailing procedures such as applying the correct postage.

If an employee’s account balance falls below zero – for instance, if the employee doesn’t have enough in the account to cover fees – UMB considers this a “negative balance.” If the employee has a negative balance for 45 days, UMB will contact the employee and, depending on the outcome of the communication, the account will most likely be closed.

Employee communications and contacts

The importance of a pre-enrollment communications plan

A well-thought-out communication plan is the key to high HSA adoption rates and employee satisfaction. Humana advises our customers to focus on two areas:

- Understanding the HSA and
- The benefits of being an active healthcare consumer, not just a passive user

Employees of any income and educational level can understand how an HSA works. Education is the key to the successful introduction of a consumer-driven approach.

Online guidance and tools

During the year, employees can log in to MyHumana, their secure website on **Humana.com** to:

- Review up to 90 days of transactions
- Request additional Humana Access cards
- Download deposit slips, withdrawal forms, beneficiary designation forms, account closure forms, and more
- Click the link to the UMB Bank website to check interest rates and use their Online banking tools.
- Review frequently asked questions
- Set up investments (only available with HSA Enhanced)

To register for MyHumana, employees just go to Humana.com, click the “Register for MyHumana” button, and follow the easy instructions.

Account balance information

To check their HSA balance online, employees can log in to MyHumana. The website includes the most up-to-date information about the account. Employees can also get up-to-date information about their account balance over the phone through our automated voice-response system. To access the system, members call the Spending Account Customer Service number on the back of their Humana Access Card.

Quarterly statement

UMB provides quarterly statements online outlining activity for the interest-bearing savings account. If an employee chooses to invest HSA money in mutual funds, the employee will also receive quarterly investment statements from UMB and UMB Financial Services related to the investment account. UMB statements also contain customer service contact numbers in case the employee has any questions. It's important for employees to review quarterly statements to check the accuracy of transaction amounts and balance information. UMB charges \$1.50 per quarter for paper statements.

Employee contact information

Your employees can contact Humana and UMB in a variety of ways:

- **Phone number** for Humana's Spending Account Administration area, which can address employees' HSA questions or reimbursement requests: 1-800-604-6228

Representatives are available from 8 a.m. to 7 p.m. Eastern time. However, employees can get automated information using the same number 24 hours a day.

- **Mailing address** for employees' HSA deposits and correspondence:

UMB HSA Processing
P.O. Box 219490
Kansas City, MO 64121-9490

See the "Reimbursement from the account" section for more information about HSA reimbursement requests. See "Other ways to contribute" for details on deposits.

Job changes and life events

COBRA implications and employee terminations

If an employee leaves your organization, all of the employee's HSA funds remain in the account the employee established while at your company. However, you and your employees do need to be aware of some possible changes.

If the employee goes on COBRA, he or she can continue HDHP coverage through the group health plan. COBRA only applies to the HDHP. However, COBRA status may have an impact on the HSA:

- The former employer is allowed to stop making contributions to the employee's HSA, if the employee was receiving them
- The employee can contribute money to the HSA, as long as the employee still has an HDHP and hasn't exceeded the maximum annual contribution
- The employee can use HSA funds for qualified expenses, including COBRA premiums
- Humana transfers administration and customer service responsibility to UMB
- The employee is responsible for any fees associated with the HSA, including the monthly administration fee

If the employee goes to another company:

- The employee can continue to use HSA funds that are already in the account
- The employee can continue contributing to the HSA only if the employee enrolls in a qualifying HDHP
- The employee can't add to the account if the employee enrolls in a plan that isn't an HDHP

The impact of life events on the HSA

Almost anything that affects your employees' health benefits can have an impact on their HSA. For example:

- **Marriage** – Adding a spouse to the plan changes an employee's HDHP coverage level from single to family, so the deductible and maximum annual contribution amount will change. And if the employee gets coverage under the new spouse's medical plan – either as the only coverage or through "dual coverage" – the employee can continue HSA contributions only if the spouse's plan is an HDHP. A spouse's healthcare FSA or Health Reimbursement Arrangement (HRA) also counts as other medical coverage – unless it is limited to dental, vision, and preventive – which means the employee can't make HSA contributions.

- **Children** – If an employee previously had single coverage, adding a child to the plan changes the HDHP coverage level from single to family, so the employee's deductible and maximum annual contribution amount will change.
- **Divorce** – If the divorce requires a change in the HDHP coverage level, the change will have an impact on the employee's maximum annual contribution amount. The settlement of assets determines the future owner of the HSA. If the settlement is to transfer the money to the spouse, the name on the account will change. The new accountholder faces no tax implications, and the account regulations don't change.

When an employee dies

If an employee still has an HSA balance at the time of his or her death:

- If the beneficiary is the spouse, the HSA balance transfers to the spouse as of the date of the death – with no tax implications.
- If the beneficiary is not the employee's spouse, the HSA ceases to be an HSA as of the date of death. The fair market value of the account is taxable on the beneficiary's tax return for the year in which the employee died.
- If there is no beneficiary on file, then the estate becomes the beneficiary, and the HSA ceases to be an HSA as of the date of death. The fair market value of the account, as of the date of death, is taxable on the employee's final tax return.
- It is highly recommended that the HSA account holder complete a beneficiary form and submit to UMB.

Visit www.irs.gov for details.

Employees can download a beneficiary designation form on MyHumana – each member's secure website on Humana.com – or call Humana's spending account administration phone number for a form.

Tax preparation

Required forms

Here's an overview of IRS forms for the HSA and the party responsible for completing them:

- Form 1099-SA – UMB Bank, the account custodian, mails this form to employees by Jan. 31. The form reports all distributions from the account and is only sent if there is a distribution from the HSA.
- Form 5498-SA – UMB mails this form to employees by May 31. The form reports all contributions, rollovers, and transfers to the account.
- W-2 Form – The employer completes this form, which reports paycheck deductions for the HSA.
- Form 8889 – The employee is responsible for completing this form when filing his or her taxes. The form reports all HSA contributions and distributions – information shown on the 1099-SA and W-2.

When employees file their taxes, they don't have to report HSA interest earnings as income. Employees with further tax questions should consult their tax advisor or the IRS website – www.irs.gov.

- * Qualified contributions are exempt from federal income taxes for HSA account holders. States can choose to follow the federal tax-treatment guidelines for HSAs or establish their own; Alabama, California and New Jersey don't allow employers or employees to deduct HSA contributions. Consult your tax advisor to understand how your state treats HSA contributions and tax implication.

Humana group medical plans are offered by Humana Medical Plan, Inc., Humana Employers Health Plan of Georgia, Inc., Humana Health Plan, Inc., Humana Health Benefit Plan of Louisiana, Inc., Humana Health Plan of Ohio, Inc., Humana Health Plans of Puerto Rico, Inc. License # 00235-0008, Humana Wisconsin Health Organization Insurance Corporation, or Humana Health Plan of Texas, Inc., or insured by Humana Health Insurance Company of Florida, Inc., Humana Health Plan, Inc., Humana Health Benefit Plan of Louisiana, Inc., Humana Insurance Company, Humana Insurance Company of Kentucky, Humana Insurance of Puerto Rico, Inc. License # 00187-0009, or administered by Humana Insurance Company or Humana Health Plan, Inc.

Statements in languages other than English contained in the advertisement do not necessarily reflect the exact contents of the policy written in English, because of possible linguistic differences. In the event of a dispute, the policy as written in English is considered the controlling authority.

For Arizona Residents: Offered by Humana Health Plan, Inc. or insured by Humana Insurance Company. Administered by Humana Insurance Company.

Please refer to your Benefit Plan Document (Certificate of Coverage/Insurance or Summary Plan Description) for more information on the company providing your benefits.

Our health benefit plans have exclusions and limitations and terms under which the coverage may be continued in force or discontinued. For costs and complete details of the coverage, call or write your Humana insurance agent or broker.

FSA, PCA, and HSA spending accounts are not insured benefits; they are a service administered by Humana Insurance Company.

