Get Started with a Health Savings Account

Discovery Benefits®
simplify.℠

www.DiscoveryBenefits.com

A combination that puts you in control

There's a relatively new way to pay for health care that is gaining popularity; a high deductible health plan (HDHP) along with a health savings account (HSA). The HSA allows you to use tax-free dollars to pay for medical expenses.

This combination gives you ultimate control over how you spend your health care dollars.

Start with an HDHP

High deductible health plans offer protection from catastrophic or major medical expenses. These plans have a cap on how much you pay out-of-pocket and many fully cover preventive services to keep you healthy. HDHPs are relatively inexpensive compared to comprehensive plans.

Add an HSA

When you have an HDHP, you can set aside money in a tax-free account to pay your insurance premiums and out-of-pocket costs.

Once you meet your deductible, your health plan kicks in. Any money left over in your HSA remains yours, allowing you to grow your funds over time.

Health savings accounts resemble individual retirement accounts.

Think of an HSA as a medical IRA. The similarities include:

- Deposits are tax-free and your money grows tax-free.
- You decide how to invest and grow your money.
- You can withdraw funds for qualified medical expenses anytime, tax-free.
- When you reach age 65, you can withdraw your money without penalty and use it for whatever you want.

Get started today. Enroll at **www.DiscoveryBenefits.com.**
It's a great perk from your employer and it can save you money.

Health Savings Account

Contribute tax- free • Grow your funds tax-free • Spend tax-free

Benefits of an HSA

- You choose how much to set aside for healthcare expenses, up to the IRS maximum. Currently at:
  2013:
  - $3,250 for single HDHP coverage*
  - $6,450 for family HDHP coverage*
  2014:
  - $3,300 for single HDHP coverage*
  - $6,550 for family HDHP coverage*
- Reduces taxable income—deposits are taken out of your paycheck before income tax is calculated and withdrawals for qualified medical expenses are tax-free if an HSA is offered through your cafeteria plan.
- Grows with you—the money in the account is yours to invest and the earnings are tax-free.
- Your employer may contribute to your HSA.
- Covers a wide variety of medical expenses not typically covered by traditional insurance (see page 7).
- Your HSA is portable if you change jobs.
- Allows you to shop for care.
- From age 55 until you enroll in Medicare, you can contribute an additional $1,000 annually.
- At age 65, you can use your HSA funds however you choose. It's counted as income and taxed as such, but there's no penalty.
- Once covered by Medicare, you can no longer contribute but you can withdraw available funds from your HSA.

*The IRS adjusts these amounts annually. The most current information is online at DiscoveryBenefits.com

Is this right for me?

Things to consider when choosing an HSA:

- Your anticipated healthcare expenses.
- How active you want to be in your healthcare spending.
- Your personal financial situation.
- If enrolled in other coverage through a spouse, you may be ineligible for an HSA.
- A conversation with your tax advisor can help you decide.

Eligibility

To be eligible for an HSA, you must:

- First enroll in a high-deductible health plan

You are not eligible for an HSA if:

- You are claimed as a dependent on someone else's taxes
- You are covered by another plan that conflicts with the HDHP, such as Medicare, a flexible spending account, or select health reimbursement arrangements.

Once you determine an HSA fits your needs, enroll online; there are no paper forms to complete. Once you're enrolled, Discovery Benefits simplifies the process into four steps:

1. Deposit money into your HSA
2. Manage your funds
3. Spend on medical expenses
4. Collect your money

ONE

Step One: Deposit Funds

Your contributions are tax-free

Three ways to make contributions:

1. **Pre-tax salary deductions—**if your employer offers this benefit, your payroll deductions are exempt from most state FICA and FUTA taxes as well as federal income tax. (Most states allow this, but not all. Check with your employer.)
2. **Employer contributions—**made directly to your HSA by your employer.
3. **Direct contributions—**throughout the year on your own schedule. Your annual contributions are taken as a deduction on your tax return (no need to itemize).

Starting out

- Once you enroll in a high-deductible health plan, you can start HSA contributions the first of the next month.
- You may contribute up to the IRS maximum as long as you open your HSA by December 1 and remain eligible for the following 12 months.

Tax tips for your Discovery Benefits HSA

HSAs are governed by the Internal Revenue Service. These tips will help you get the most tax advantages from your funds.

If you contribute too much...

- Simply remove the excess contributions and any income you've earned from those contributions before your tax return deadline (usually April 15).
- Ask your tax preparer to help you monitor your contributions so you stay within the IRS limits.
- If you forget, the excess contributions are taxed at 6% each year they remain in the account.

If you contribute the annual maximum...

- Be sure to remain HSA-eligible for the following 12 months (see eligibility section on page one).
- If your eligibility status changes in that following 12-month period, make sure you budget for taxes and a 20% penalty for the months you are ineligible.
- You're free to contribute to more than one HSA for yourself, just be sure the total amount of all HSA contributions are within the annual limit.

If you split contributions with a spouse...

- You can divide the contributions however you like, equally or otherwise.

If you are turning 55...

- Once you turn 55, you can make an additional catch-up contribution each year.
- If you and your spouse are both making catch-up contributions, be sure to open a second HSA for his/her catch-up contribution. (IRS allows one catch-up contribution per HSA per year.)
- Once you're covered by Medicare, you stop making contributions to your HSA, but you can still use any funds you have available.

If you contribute for individuals who are non-eligible...

- Just remove the ineligible contributions and attributable earnings from your HSA. The IRS allows you ample time to do so.
- If you forget, the excess funds and their earning are taxed at 6% each year they remain in the account.

If you're starting late in the year...

- Set up your HSA no later than December 1. Contributions can be made right up until your tax return date (usually April 15 for those who pay taxes by the calendar year). Keep in mind you'll need to remain HSA-eligible for the following 12 months.

TWO

Step Two: Manage Your Funds

Grow your funds in interest bearing accounts

Access funds for short-term healthcare needs while you grow funds for long-term security. Your HSA contributions can go into one of three places:

1. Cash account (default account)

Your funds start out in an interest-bearing FDIC insured cash account. There is no minimum deposit required for opening an HSA. Once your contributions reach $1,500, you have additional choices.

2. Interest bearing account

After you have $1,500 in your cash account, excess funds can be transferred, in $100 increments, into an interest bearing FDIC insured account. Funds are automatically transferred between the cash and interest bearing accounts as cash account fund levels increase or decrease. Interest rates are variable.

3. Mutual funds

This is where your investing flexibility becomes a reality. At any time, you may invest funds from your interest bearing account in a wide variety of mutual fund options. Those options are available online in the HSA section at DiscoveryBenefits.com.

Mutual fund shares may be automatically sold to bring the cash account balance to the minimum threshold of $1,500, when necessary. As with any mutual fund, your HSA investments are not FDIC insured and are made at your own risk. They are not guaranteed by Discovery Benefits or the fund custodian, Healthcare Bank, and may lose value.

Flexibility allows for family changes.

Designate a beneficiary.

As you would with an IRA, you will name a beneficiary when you enroll in an HSA. If you name your spouse, your HSA will become his/hers after your death. If you choose someone other than your spouse, the account stops being an HSA and the fair market value of the account becomes taxable to your beneficiary. If you don't designate a beneficiary, the fair market value of the account will be added to your last income tax and estate tax return. You can change your beneficiary at any time.

Adjust for marriage and family changes.

- If your HDHP coverage changes from single to family coverage, you may increase your contribution on a prospective basis.
- If your HDHP coverage changes from family to single coverage, you may adjust the contribution on a prorated basis to ensure you do not contribute more than allowed.
- In the case of a divorce or separation agreement, a transfer to your spouse or former spouse is not taxable as long as it's maintained as an HSA.

Rollovers from other accounts

Existing HSAs

Once every 12 months, you can transfer an existing HSA balance or rollover a medical savings account (MSA) balance.

Initiate the transfer within 60 days of constructive receipt by using the Rollover Request Form at DiscoveryBenefits.com.

IRA rollovers

You may also perform a one-time rollover from your individual retirement account (IRA) to your HSA as long as you remain within your annual contribution limit and you remain HSA-eligible for a year after your rollover. If you become ineligible for the HSA by no longer being covered by the HDHP or having non-HDHP coverage, the entire amount of the rollover is taxed and is subject to a 10% penalty tax.

To initiate the rollover from your IRA, contact your IRA provider.

THREE

Step Three: Spend on Medical Expenses

Tips for smooth spending

Eligible expenses

Expenses can be reimbursed from your HSA for the diagnosis, cure, mitigation, treatment or prevention of diseases and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate or prevent a physical or mental defect or illness. Expenses solely for cosmetic reasons generally are not expenses for medical care. Also, expenses that are merely beneficial to your general health are not eligible.

Examples of eligible expenses:*

Acupuncture
Chiropractor's fees
Psychiatric care
Hospital services
Operations
Diagnostic fees
Ambulance
Christian Science practitioners' fees
Psychoanalysis
Immunization fees
Eyeglasses
Artificial limbs
Osteopathic physicians
Psychologist visits
Insulin
Contact lenses
Eye exams
Artificial teeth
Hearing aids
Over-the-counter products*
Sterilization medication
Laboratory fees
Guide dog
Birth control (pills, condoms, spermicides)
Contact lenses solution
Transplants (organs)
Oxygen
Medical services
Crutches
Wheelchair
Braces
Prescription drugs
Hearing aid batteries
Nursing services
Dental fees
X-ray

*A detailed list, IRS Publication 502, Medical and Dental Expenses, is available at DiscoveryBenefits.com. Over-the-counter medicines and drugs will require a physician's prescription in order for them to be eligible for tax-free reimbursement from the HSA.

Choose the way you pay for eligible expenses.

Pay upfront and get reimbursed.

- Pay for services and products.
- Enter your withdrawal request at DiscoveryBenefits.com.
- If you wish to access funds that are invested, please allow five business days for processing.

Pay eligible expenses with your Discovery Benefits Debit Card.

- Use your Discovery Benefits Debit Card to pay for eligible services and products.
  - Payments are automatically withdrawn from your HSA, so there are no out-of-pocket costs.
- Receive two cards when you enroll.
  - Request additional cards for your spouse and dependents 18 years of age or older for free.
  - Replace lost or stolen cards for free.

Discovery Benefits Debit Card tips:

- Don't use the card for amounts that still need to be processed through insurance, such as deductibles. When you receive your final statement from the provider showing insurance has been paid, write your Discovery Benefits Debit Card number on the statement and mail it to your provider.
- We will not ask you for any records to substantiate services or purchases, but the IRS could. Keep your statements and receipts for tax records.
- If you are enrolled in a limited FSA, you can use your Discovery Benefits Debit Card for dental and vision expenses only. If your plan allows, once you meet your annual deductible, you may use your FSA (although not your card) for all eligible IRS expenses. Check your plan description for details about the Limited FSA.

FOUR

Step Four: Collect Your Money

The money in the HSA is yours to use for medical expenses, or to invest and grow. Even when you are no longer actively contributing to an HSA, you still have access to the remaining funds.

Choose your reimbursement method

- Direct deposit—fast and seamless reimbursement
- Check—the default unless you enroll in direct deposit

Medical reimbursements /withdrawals

After you pay upfront for medical expenses, you request reimbursement from your HSA:

- Reimbursements are tax-free for qualified expenses that are incurred while you are an HSA accountholder.
- There's no time limit for reimbursement.

Non-medical withdrawals

You can make non-medical withdrawals from your HSA at any time.

- Non-medical distributions become taxable income and a 20% penalty may apply.
- If you are disabled or age 65+, you can withdraw your money without penalty, but you must report your distribution as taxable income.
- You may use your funds for a spouse or dependent not covered under your HDHP.

Good record keeping is key to a successful HSA.

You don't have to submit substantiation to receive your reimbursement. However, you will want to keep good records for the IRS:

- Keep receipts and documentation for each year's federal tax return
- You can upload and save receipts in your online account
- Complete IRS Form 8889 and attach it to your Form 1040
- Each year, Discovery Benefits will send you two forms to complete your records:
  - Form 1099-SA, showing your distributions (sent by January 31)
  - Form 5498-SA, showing your contributions (sent the end of May)

Request your money online

Simply request your distribution online at www.DiscoveryBenefits.com.

- Payment will be made based on available funds in the account.
- You can request payment be made directly to your provider.
- Funds are sent via direct deposit to your checking or savings account within five days from the request date.
- Additional processing time may be required when invested funds must be sold to provide reimbursement.

Keep in mind, using your Discovery Benefits Debit Card eliminates the need for reimbursements altogether.

Your privacy

HIPAA (the Health Insurance Portability and Accountability Act) has changed the way we share information. We no longer share balances, claims or payments with spouses or anyone else without an assigned authorization form from you. If you decide you want us to share information with someone, simply complete an Authorized Representative Form and send it to us. The authorization is in effect for one year, unless we receive a written request from you to terminate the authorization.

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We're here for you.

www.DiscoveryBenefits.com

- Check account balance
- View account history
- Access administrative forms
- Contact us via email
- Manage your profile

866-451-3399

- Speak to a service representative, M-F 7:00 a.m. to 7:00 p.m. CST
- Get answers to your HSA questions
- Interactive Voice Response (IVR) system for 24/7 access to account balance and claims information
- Be prepared to verify your identity when calling

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