

HEALTH SAVINGS ACCOUNT ADMINISTRATION



P&A Group HSA Employer Guide



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HSA Overview

A health savings account (HSA) offers your employees a tax-advantaged way to save and pay for qualified out-of-pocket healthcare expenses. In order to offer an HSA option, employers must offer a qualifying high-deductible health plan (HDHP) for employees. Since high-deductible health plan premiums are lower than typical HMO and PPO premiums, many businesses are finding significant savings when they offer a high-deductible plan and HSA option for employees.

It's important to note that unlike FSAs and HRAs, HSAs are not group health plans, but rather individually owned bank accounts. Once the account is funded, the employer has no control over how funds are managed and used by employees. Employees fully own the contributions to the HSA as soon as they are deposited.

Employee Contributions

Employee contributions can be made to a Health Savings Account on either a pre-tax or post-tax basis. When employees make contributions pre-tax, it is done through a Section 125 plan (also called a salary reduction or cafeteria plan), generally through direct deposit of payroll. Employees contributing to an HSA through a cafeteria plan may adjust their contributions at any time, as long as the change only affects future contributions. If employees contribute funds on a post-tax basis, the amount can be deducted from their taxable income.

Employer Contributions

Employers are under no obligation to make any contributions to their employees' HSA. However, many employers find that contributing to employees' HSA may increase adoption of the HDHP, especially if you are transitioning from a more traditional type of health coverage.

Employers may make pre-tax contributions to their employees' HSA if they have a cafeteria plan in place that allows for HSA contributions. These contributions are not subject to any payroll driven expenses including state and federal income tax, FICA, FUTA, or the Railroad Retirement Act. Additionally, employers may fully fund employees' HSA at the beginning of the plan year or make contributions available on an alternative frequency such as monthly or quarterly. Keep in mind that all HSA contributions are employee-owned and all contributions (employee and employer) are controlled by the employee.

Generally, employer contributions must be comparable, which means they must be in the same dollar amount or same percentage of the employee's deductible for all employees in the same "class." Contributions cannot be based on length of service, management status, age or salary. Additionally, contributions cannot be deposited in favor of higher paid employees. However, with the passage of a law in 2007, higher contributions are allowed for non-highly compensated employees. In addition, you can vary the level of contributions for full-time vs. part-time employees, and employees with self-only coverage vs. family coverage. You do not need to consider employees who have not elected the HDHP coverage because they are not eligible for HSA contributions.

Maintaining HSA Eligibility

As previously indicated, employees must be enrolled in an HSA compatible health plan to contribute to an HSA. Below are examples of common health coverages that are considered "prohibitive health coverage" and would preclude someone from being eligible to contribute to an HSA:

- Medicare Coverage (Parts A, B, or D)
- Tricare Coverage
- General Purpose Health FSA (both by the employee or spouse's Health FSA)
- Health Reimbursement Arrangement (both by the employee or spouse's HRA)
- Employee Assistance Plans (EAP) that provide medical care or treatment
- On-site health clinics that provide medical care or treatment for free or at minimal cost



Enrollment



Step 1: Eligibility

The concept of establishing an HSA with P&A is to allow plan participants to defer their salary via pre-tax salary contributions or allow employers to make pre-tax HSA contributions. The rules of who can qualify for pre-tax deferrals or contributions must be followed as per Section 125 plan (also called a salary reduction or cafeteria plan) of the Internal Revenue Code of 1986.

Employees who are considered eligible for the plan must first be considered a common law employee and reported on the payroll records of the employer. **The following individuals may not be enrolled in an HSA plan where pre-tax salary deferrals may occur and/or employer contributions are made on behalf of the employee:**

- Sole Proprietors
- Partners in a Partnership
- Partners in an LLP that is taxed as a Partnership
- Members of an LLC that is taxed as a Partnership
- Shareholder of a sub-chapter S (S Corp) who own more than 2% of the sub-chapter S stock directly or through a related party
- Direct relatives of a greater than 2% shareholder of a sub-chapter S; direct relatives are defined as the spouse, children, parents and grandparents of the greater than 2% shareholder.

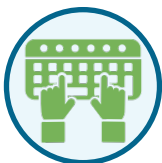
The employer may then impose its own eligibility requirements, such as full-time employees.

Lastly, the employer must offer an HSA-compatible qualified high deductible health plan (HDHP). In order for a HDHP to be considered HSA compatible, the individual and family deductible, as well as the maximum out-of-pocket maximums must meet the IRS requirements, which are defined annually.



Step 2: Enrollment into a Qualified Medical Plan

Once the employee has met the eligibility criteria noted above, the employee must elect to participate in an HSA qualified HDHP.



Step 3: Election of an HSA by the Employee

After the eligible employee has elected to participate in an HSA qualified HDHP, the employee must enroll in an HSA plan with the employer. Enrollment is not performed with P&A but rather with the employer.



Step 4: HSA Enrollment is Remitted to P&A

PLEASE NOTE: Employees must meet steps 1-3 before P&A can accept HSA enrollment information.

A file shall be sent to P&A detailing employees who have enrolled in an HSA plan or, if applicable, those who are eligible for employer HSA contributions. The file layout, required by the bank custodian, contains basic employee information needed for enrollment, including email addresses.

Email addresses are a requirement of HSA services. It's preferable employees' personal email addresses are provided instead of work e-mail addresses, however, work email addresses will be accepted. The bank will notify participants, via email, upon the successful opening of the bank account or if additional steps are needed by the employee to open the bank account. Additional information pertaining to tax filings, where to locate forms, and bank communications will be emailed to participants on an as needed basis.

An HSA is considered a bank account. In order for the HSA to be opened, P&A must receive the following employee details: full legal name, residential mailing address, date of birth and social security number. These items are a requirement by the USA Patriot Act. Known as the Customer Identification Program or CIP, this verification is performed by the bank custodian and is mandatory in the opening of any bank account. **See page 4 for more information about CIP.**



Step 5: P&A Processes Enrollment Information

The bank will perform the mandatory CIP as soon as these steps have been met: the employee HSA enrollment information is sent to P&A, P&A processes the information, and the bank has accepted the information.



Step 6: CIP Process

Once the bank custodian receives the HSA enrollment information they will immediately perform the CIP process. If the employee does not pass CIP, they will be notified, via email, of the action items the employee will need to perform in order for the bank to validate the employee's identity. The employee will need to work with the bank directly - not with the employer or P&A.



Step 7: Establishing the Account

Only after the employee has passed CIP can the account start to receive contributions (pre-tax withholdings, employer contributions, post-tax contributions and transfers from a prior HSA plan). Upon the successful completion of CIP, the bank will notify the employee that: 1) they have passed CIP, 2) the HSA has been established and, 3) a debit card has been issued.

P&A's employer portal, HR Connect, has an enrollment report available to determine the status of each employee account. This will help assist in determining which accounts have been successfully established, which accounts are in a pending status, and which accounts have been closed.

- **ACTIVE** = the employee has passed CIP and is ready to receive contributions
- **PENDING** = the employee has not passed CIP and contributions sent will not be applied at that time
- **CLOSED** = the employee has either independently contacted the bank to close the account or the employee has not passed CIP after 90 days and the bank has closed the account. Contributions sent for any closed account will not be accepted by the bank.


CIP Information

Protecting participants during the account opening process

Once an employee applies for an HSA and before the account is opened, P&A needs to confirm the employee's full name, residential mailing address, birth date and social security number as required by the USA Patriot Act. This process is called the Customer Identification Program or CIP.

Ensure timely processing with complete and accurate enrollment information

The following participant guidelines help ensure an employee passes CIP.

 You must be 18 years old to open an HSA.



Provide your full legal name including your middle initial. All transgendered employees must also provide their transgendered legal name. Do not use a nickname, an Americanized version of your legal name or variations in spelling from your legal name. The full legal name also includes Jr. and Sr.



Use your current residential address. Do not use a post office box or a non-US address. Because an HSA is a bank account, government compliance does not permit PO boxes. **If a PO box is provided, the HSA will not be established.**



Double check that you have provided the correct social security number.



Include your full date of birth, including the month, day and year.

Next steps of the account opening process

Once we receive enrollment information from the employer, HSA participants will receive a welcome e-mail.

For employees who do not pass CIP, the bank custodian will contact them via their chosen communication method. The communication will explain the CIP issue and request the documentation needed to confirm their identity or address. If they do not submit the documentation within the time frame indicated, they will receive two follow-up and final requests.

How Contributions Work

After the employee passes CIP, the account can start to receive contributions. An HSA contribution file will need to be sent to P&A each pay date or contribution period in order to apply. The file layout is similar to the enrollment file layout, with two added fields at the end of the file; the employee pre-tax contribution amount for the specific pay date and the employer contribution amount.

PLEASE NOTE: there is a limit on HSA deposit limitations – the maximum amount is tied to HSA eligibility, which is determined on a monthly basis. If the employee is not eligible all year (12 months of the calendar year), the maximum contributions will be limited based on the number of months eligible, with an exception made if the employee is enrolled as of December 1.

Example 1: Let's say an employee enrolls in an HSA on January 1 and he loses eligibility six months later on June 30. The maximum amount he can contribute is half of the annual HSA limit.

Example 2: An employee enrolls later in the year on October 1 and continues to have eligibility. He can contribute the maximum annual limit if he meets two requirements: 1) continues to be enrolled as of December 1 and 2) enrolls for an additional 13 months, or until December 31 of the following year.

It is highly recommended HSA contributions are not sent for plan participants until they have passed CIP. If contributions are sent to P&A before the enrollment is sent to, received or processed by P&A, the contributions will not be accepted by the bank. In order to rectify, the enrollment will need to be sent and processed by P&A. At that time, the bank must perform CIP and the employee must pass CIP. Once each of these items have been successful, the contributions will need to be resent to P&A for processing.

If contributions are sent to P&A before the employee passes CIP, the contributions will be held by the bank in a pending queue. Only if the employee passes CIP within 90 days will the bank then process all pending contributions.

If the employee does not pass CIP, the bank will close the account after 90 days and any contributions sent to the employee HSA plan will not be applied by the bank. This is very important because payroll contributions would have been withheld from the employee on a pre-tax basis and would now require a refund back to the employee.



P&A recommends HSA contributions are **not** sent for plan participants until they have passed CIP. Please see page 4 for information on CIP.

Funding Overview

When a bank determines contributions can be applied towards active opened accounts, a debit will occur out of the employer bank account on file. Next, funds will be made available towards the employees' HSA.



IF A CONTRIBUTION IS SENT BEFORE ENROLLMENT...

Contributions which could not be applied due to a contribution sent before the enrollment will not be made available or withheld from the employer's bank account. Those contributions must be resent to P&A after the employees' enrollment has been sent and the employees have passed CIP.

IF A CONTRIBUTION IS SENT TO A PENDING ACCOUNT...

Contributions that could not be applied due to a pending account will not be made available to employees or withheld from the employer's bank account until the employees pass CIP. If the employees do not pass CIP within 90 days, the bank accounts will be closed by the bank. Any contributions withheld from pay will need to be refunded back to the employees.

IF A CONTRIBUTION IS SENT TO A CLOSED ACCOUNT...

Contributions that could not be applied due to a closed account will not be made available to employees or withheld from the employer's bank account.



Funding Method



Payroll files can be uploaded via P&A's secure employer portal, HR Connect, or through SFTP.



Upon receipt of payroll file, a confirmation number is assigned.



Payroll files must be received at least two business days prior to the payday to ensure funds are available on the payday.

Payroll files cannot contain employee(s) who have not passed CIP.



1

P&A receives an HSA contribution file two days prior to the employer pay date/contribution date.

2

P&A applies both deductions and contributions to the Health Savings Accounts.

3

P&A sends an e-mail notification to the employer when funds are withdrawn.

4

Funds are extracted via ACH from the employer's bank account 1-3 days after the contribution file is processed.

Failed Deposits

Occasionally, you may have a payroll deposit that fails. Failed deposits may occur for a variety of reasons, which are available on the HSA Deposit Exception Report in HR Connect. The most common rejections are listed below:

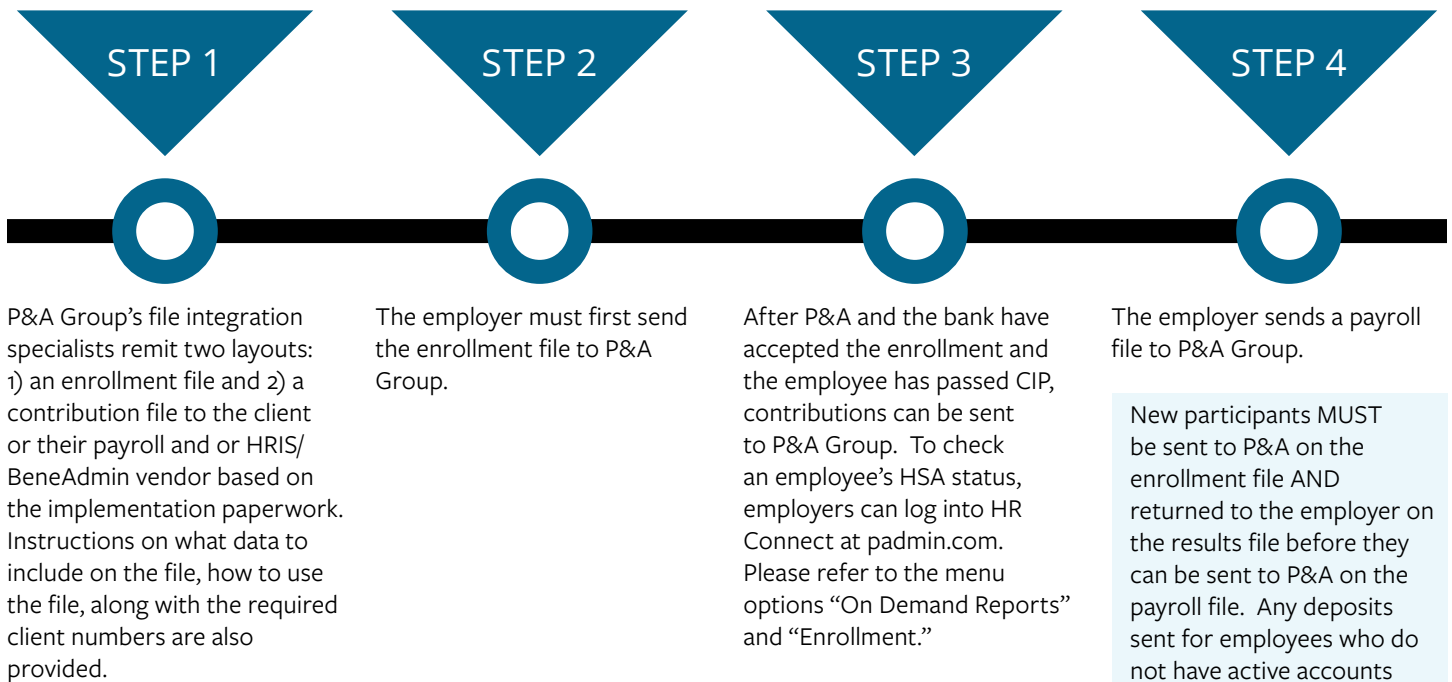
1. Non-enrollment of participant: This indicates that at the time P&A processed the HSA Payroll/contribution file, the employees listed have not yet been received on an enrollment file. Therefore, we are unable to process the deposit at this time.
 - * **Action Required:** Once the employee enrollment has been submitted to P&A and the employee has passed mandatory CIP, please resubmit all previously rejected HSA payroll contributions.

2. Deposit rejected at the bank custodian. This can indicate one of several issues:

- Employee has been enrolled, but has not passed mandatory CIP, which is pending.
 - * **Action Required:** This deposit will be automatically applied to the participant account if the participant completes the mandatory CIP process and the account is opened within 90 days.
- Employee has failed to respond to mandatory CIP requests and the account has been closed.
 - * **Action Required:** This deposit will not be applied towards participant accounts and will need to be re-sent to P&A once the account has been opened.
- Employee deposit has been sent after termination.
 - * **Action Required:** This deposit will be reposted by P&A.

Enrollment & File Processing

Please follow these guidelines to submit enrollment or data files to P&A.



New participants MUST be sent to P&A on the enrollment file AND returned to the employer on the results file before they can be sent to P&A on the payroll file. Any deposits sent for employees who do not have active accounts and/or have not yet passed the required CIP process will result in rejected contributions. Therefore, the contribution amount to be applied and the amount withdrawn from the bank account on file will not match.

Key

Eligibility file

Contains all eligible employees who have enrolled in both a qualified HSA compatible Health Plan and an HSA plan with the employer. This file is also used to update participant name and address changes as well as employee terminations.

Payroll file

Contains all employees who have successfully established their HSA and can include HSA pre-tax withholdings and employer contributions, if applicable.

CIP process

When employees apply for an HSA and before their account is opened, we need to confirm their full name, residential mailing address, birth date and social security number as required by the USA Patriot Act. This process is called the Customer Identification Program or CIP.

Employee Terminations & Loss of Coverage

When an employee has separated their employment with the employer, P&A should be made aware of the separation. This includes but is not limited to both voluntary and involuntary separations, retirements, resignations, and layoffs.

When an employee is still employed by the employer but has experienced a change which may result in the change to their eligibility of the HSA plan, P&A does not need to be informed. Changes to the eligibility criteria of the employee results in the inability to contribute to the plan on a pre-tax basis. Since the employee is able to utilize their HSA benefit dollars, their account status remains active. Changes to eligibility include but are not limited to changes such as a reduction in hours, changes to insurance, or changes in employee status, like becoming a partner in the company.

Terminated Employees

P&A will move any terminated employees to an independent account, where they will no longer be associated with the employer.

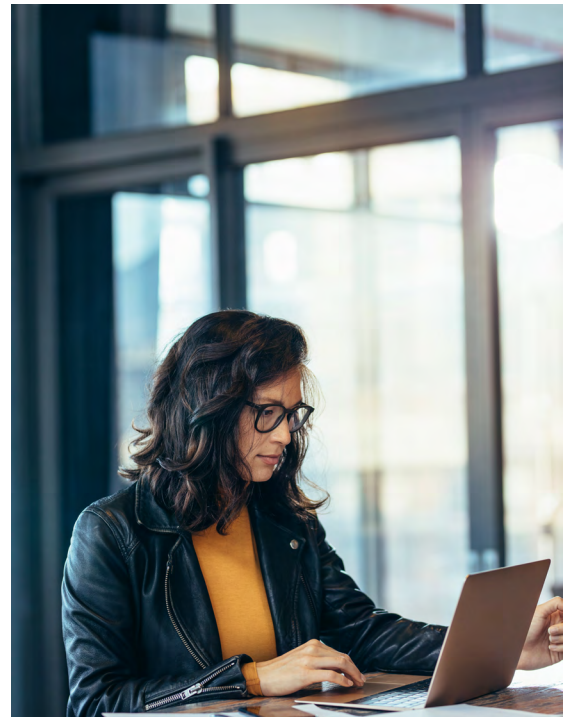
HSA participants who terminate employment can take their HSA with them because these accounts are completely portable. Additionally, HSA participants can continue to be actively enrolled in their HSA if they are enrolled in an HSA compatible health plan. If they do not enroll in HSA-compatible health insurance coverage, they cannot contribute to their HSA. Terminated employees would be responsible for the administrative fee to keep their HSA open.

Re-associations

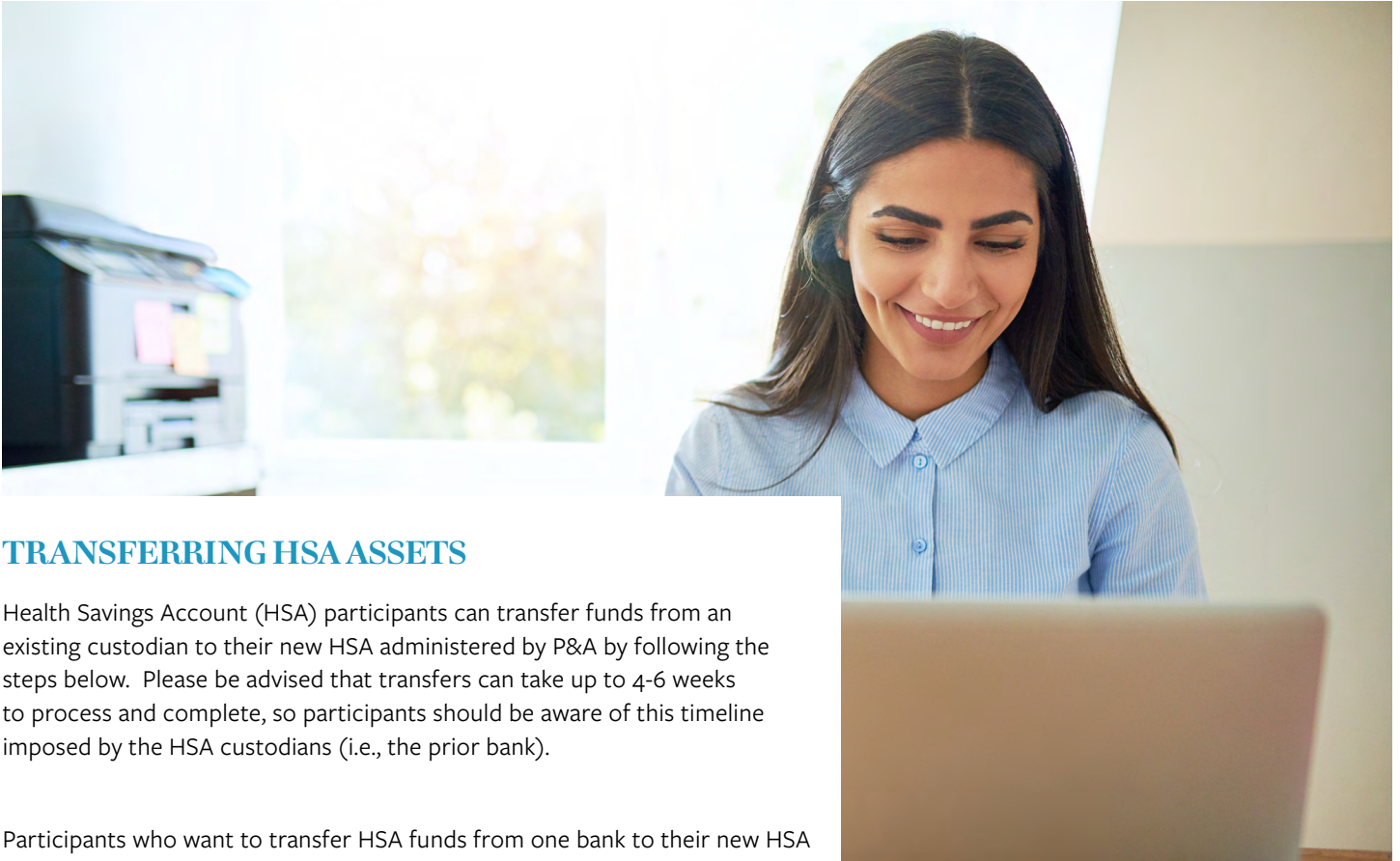
After the employee HSA has been terminated by P&A Group, the employee HSA plan will be moved out of the employer's HSA plan and into an independent employee HSA plan. This process is known as re-association.

Approximately 30 days after the employee termination date, P&A will review the employee HSA plan and determine if the plan can be moved to an independent HSA plan. The most common reasons why an independent HSA cannot be created is due to limited availability of funds or the employee has previously closed the account with the bank custodian.

Once the employee has been re-associated, they will receive a new welcome email informing them of the re-association. The employee will also receive a new debit card and will be responsible for the monthly administrative fees.



HSA Transfers



TRANSFERRING HSA ASSETS


Health Savings Account (HSA) participants can transfer funds from an existing custodian to their new HSA administered by P&A by following the steps below. Please be advised that transfers can take up to 4-6 weeks to process and complete, so participants should be aware of this timeline imposed by the HSA custodians (i.e., the prior bank).

Participants who want to transfer HSA funds from one bank to their new HSA plan with P&A must first liquidate any investment balance in their existing account. Then, the participant must complete the form labeled “Transfer of Assets Form,” available when you log into your account at www.padmin.com. This form needs to be submitted to the current custodian for processing. Once these two action items are complete, the transfer of funds can take anywhere between 4-6 weeks for the custodians to process.

Participants who want to check on the status of the transfer can call their existing custodian first to see if the account has been closed yet. If the account has been successfully closed, then participants can call the new bank custodian directly.

Please note: transfers can typically take anywhere between 4-6 weeks due to standard banking practices and procedures.

TRANSFER CHECKLIST FOR PARTICIPANTS

- 1 Notify your current custodian.
 - 2 Complete the “Transfer of Assets Form.”
 - 3 Submit the form to your current custodian.
 - 4 Your outgoing custodian will mail a check to your new custodian for processing.
-  Please wait 4-6 weeks for the transfer to be completed.

HSAs with FSAs

Employees who are enrolled in an HSA cannot also enroll in either a Section 125 General Purpose Health Flexible Spending Account (FSA) or any Section 105h Health Reimbursement Arrangement (HRA) which allows reimbursement of the same expenses as an HSA.

Flexible Spending Account Options & Rules to Consider

LIMITED PURPOSE HEALTH FSA

Employers who also want to offer a Health FSA option to HSA participants and provide an additional savings vehicle can do so with a Limited Purpose Health FSA. This restricted type of FSA prevents duplication of coverage provided by HSAs; it is designed to complement an HSA and may be established to pay for eligible vision and dental expenses.

To setup a Limited Purpose Health FSA, please contact your P&A Benefits Consultant.

FSAs *with* THE CARRY FORWARD

If your company's FSA plan allows for the carry forward option, unused General Purpose Health FSA balances must be converted to Limited Purpose carryover account. It is the responsibility of the employer to review this annually at each Open Enrollment and inform P&A of employees whose funds will need to be converted.

FSAs *with* THE GRACE PERIOD

If your company offers the grace period, it is important to note that employees are not considered eligible for the HSA plan until the first of the month following the end of the grace period date.

EXAMPLE

John Doe was enrolled in his employer's calendar year General Purpose Health FSA, which offers the grace period, through March 15 of the following year. The next Open Enrollment, John decides to enroll in an HSA plan. Since John's FSA offers the grace period through March 15 of the following year, he is ineligible for the HSA until the 1st of the month following the end of the grace period, or April 1 of the following year.

Tax Filings

RESPONSIBILITY	FORM	FORM DETAILS	DUE DATE	NOTES
Employer Responsibilities	Employer issues employees W-2 Form	Contains all employer and employee contributions made through payroll deductions	Delivered to employees by January 31 following the tax year	
Bank Custodian Responsibilities	Bank Custodian issues Form 1099-SA	Contains any HSA withdrawals made by the employee during the year	Delivered to employees by January 31 following the tax year	Form 1099-SA does not differentiate between eligible and non-eligible HSA expenses
	Bank Custodian issues Form 5498-SA	Contains total deposits made for the tax year and prior year ending HSA balance	Delivered to employees by May 31 following the tax year	
Account Holder Responsibilities	Account holder will need to attach Form 8889 and Form 1040 when filing taxes	Forms contain: <ul style="list-style-type: none"> All deposits to and withdrawals from the HSA for the tax year Withdrawals made for eligible versus non-eligible expenses Any taxes due for withdrawals on non-eligible expenses 	Account holder must supply these forms by the tax deadline	

Important Reminders

- Since these are individually, employee-owned bank accounts, the year-to-date contributions, amount spent by the employee and the available balance are not privy to the employer.
- Employees may contribute their own post-tax contributions throughout the year.
- Employees are responsible to ensure they do not over contribute to their HSA Plan.
- Employees do not require a qualified change in status to change their HSA withholdings.
- Email addresses are a requirement of HSA services and must be provided in order to open an account.

Customer Service

If you have any questions about P&A's HSA service, or need assistance with your account, please contact your P&A Client Support Specialist or Benefits Consultant.

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