



ASSURANT
Health

Assurant Health
501 West Michigan
Milwaukee, WI 53203

About Assurant Health

In business since 1892, Assurant Health provides health insurance coverage for more than one million people nationwide. Assurant Health develops and provides a wide range of individual medical, small group, short term and student health insurance products, as well as non-insurance products.

Assurant Health also provides consumer-choice products such as Health Savings Accounts and Health Reimbursement Arrangements. With almost 3,000 employees, Assurant Health is headquartered in Milwaukee, Wis., with operations offices in Minnesota, Idaho, and Florida, and sales offices across the country. Assurant Health markets products underwritten by Time Insurance Company, John Alden Life Insurance Company and Union Security Insurance Company. The Assurant Health Web site is www.assuranthealth.com.

Assurant Health is part of Assurant, which offers specialized insurance products and related services in North America and selected other markets.

Its four key business units – Assurant Employee Benefits, Assurant Health, Assurant Pread and Assurant Solutions – have partnered with clients who are leaders in their industries and have built leadership positions in a number of specialty market segments in the U.S. and selected international markets.

Assurant is traded on the New York Stock Exchange under the symbol AIZ. The Assurant Web site is www.assurant.com.

© 2005 Assurant, Inc. All rights reserved.



ASSURANT
Health

HSA Tools

Q&A

What are the income tax consequences after an HSA account holder's death?

Upon death, any remaining HSA balance becomes the property of the beneficiary. If the beneficiary is the surviving spouse, distributions not used for qualified medical expenses are subject to ordinary income tax. If the beneficiary is a person other than a surviving spouse, the HSA ceases to be an HSA as of the date of the accountholder's death, and the beneficiary is required to include in gross income the fair market value of the HSA assets as of the date of death. This amount is reduced by any payments from the HSA made for the accountholder's qualified medical expenses, if paid within one year after death.

How are disbursements taxed if the accountholder is no longer eligible for an HSA?

If the accountholder is no longer eligible for an HSA (for example, he/she is over age 65 and enrolled in Medicare, or no longer has a high deductible health plan), distributions used to pay for qualified medical expenses are still tax-free. If distributions are used to pay for items other than qualified medical expenses, they are taxed as ordinary income (and subject to the 10% penalty if the accountholder is under the age of 65).

How are disbursements from an HSA taxed?

HSA disbursements used to pay for qualified medical expenses are not taxed. Any disbursements not used to pay for qualified medical expenses are subject to ordinary tax, plus an additional 10% penalty. This penalty does not apply in the case of distributions made after the accountholder's death, disability or attaining age 65.

Smarter.

Easier.

More Accessible.

Clients should be aware that neither Assurant Health nor its agents or affiliates are in the business of offering tax advice. Clients should consult a qualified tax professional for tax advice. Federal and state requirements are subject to change.

TAX QUESTIONS

What is the tax treatment of an HSA?

An HSA is generally exempt from tax (like an IRA), unless it has ceased to be an HSA. Earnings on amounts in an HSA are not includable in gross income while held in the HSA.

Are HSA accumulations tax-free and tax-deferred?

Yes. HSA accumulations are tax-free if used to pay for qualified medical expenses. Accumulations are tax-deferred if they are held in the account until the age of 65 and then used for purposes other than qualified medical expenses.

What is the tax treatment of an eligible individual's HSA contributions?

Contributions made by an eligible individual to an HSA are deductible by the eligible individual in determining adjusted gross income (i.e. above-the-line). The contributions are deductible whether or not the eligible individual itemizes deductions. Qualified medical expenses paid by or reimbursed from HSA withdrawals may not be taken as itemized deductions on the account holder's federal tax return.

What is the tax treatment for contributions made by a family member on behalf of an eligible individual?

HSA contributions made by a family member on behalf of an eligible individual are deductible by the eligible individual in computing adjusted gross income. The contributions are deductible whether or not the eligible individual itemizes deductions. Minors claimed as a dependent on another person's tax return do not qualify for their own HSA.

GENERAL HSA INFORMATION

What is an HSA?

An HSA is a tax-favored savings account which allows funds to be accumulated tax-free to pay for current and future qualified health care expenses. The Medicare Prescription Drug Improvement and Modernization Act of 2003 made HSAs possible.

What are the federal tax advantages of an HSA?

Contributions to HSAs are tax-deductible and withdrawals used for qualified medical expenses are not subject to tax or penalty. In addition, interest earned on HSA funds is tax-free if used to pay for qualified medical expenses. Please seek a tax consultant for state-specific information.

What is a Qualified High Deductible Health Plan (QHDHP)?

Generally, a qualified high deductible health plan satisfies certain requirements with respect to deductibles and out-of-pocket expenses. For single coverage, a qualified high deductible health plan has an annual deductible of at least \$1,000 (\$2,000 for family) and annual out-of-pocket expenses (deductibles, coinsurance, copayments and other amounts, but not premiums or non-network costs) not exceeding \$5,100 (\$10,200 for family). Plans may provide first-dollar coverage for preventive care.

How do I access my account?

You can access your account online through www.assuranthealth.com and selecting My HSA Account.

CONTRIBUTIONS

How is money contributed to the HSA?

Contributions can be made electronically through the Web site or with a check using the contribution coupons included in the checkbook. If an employer offers an HSA through a cafeteria plan, the employer or administrator can make contributions via a check sent to UMB Bank, n.a., the account custodian, using the Employer/Employee Contribution Form, form # J-31612. This form is sent with the Employer HSA Tools welcome letter and available at www.assuranthealth.com under My HSA Account.

Who can contribute to an HSA account?

Any eligible individual may contribute to an HSA. For an HSA established by an employee, the employee and/or employer may contribute to the HSA. For an HSA established by a self-employed (or unemployed) individual, the individual may contribute to the HSA. Family members may also make contributions to an HSA on behalf of another family member as long as that other family member is an eligible individual.

How much can be contributed in 2005?

The maximum contribution allowed is either \$2,650 for single (\$5,250 for family) or an amount equal to the insurance plan deductible, whichever is less. For people 55 and older, the HSA contribution limit is increased by \$600 in calendar year 2005. This catch-up amount increases by \$100 annually, until it reaches \$1,000 in calendar year 2009 and will remain at \$1,000 thereafter.

Is the HSA contribution pro-rated for the first year?

Yes. If the qualified health plan isn't effective for the entire calendar year, only the pro-rated portion of the maximum may be contributed and deducted. For example, if the plan is effective February 1st through the end of the year, the accountholder can contribute 11/12 of the maximum contribution limit.

Is the catch-up contribution allowed for both the accountholder and spouse?

Yes. Both can make catch-up contributions if they are 55 or older and each has his/her own account even if established solely for the purpose of catch-up.

Can an otherwise eligible individual who is covered by both a QHDHP and also by insurance or accident coverage for one or more specific diseases or illnesses, such as cancer, diabetes, asthma or congestive heart failure, contribute to an HSA if the insurance provides benefits before the deductible of the QHDHP is satisfied?

Yes. The tax code provides that an eligible individual covered under a QHDHP may also be covered for any benefit provided by permitted insurance. The phrase "permitted insurance" includes insurance for accidents and for a specified disease or illness. Therefore, an eligible individual may be covered by a QHDHP and also by permitted insurance for one or more specific diseases, such as cancer, diabetes, asthma or congestive heart failure, as long as the principal health coverage is provided by a QHDHP.

ELIGIBILITY AND ELIGIBLE EXPENSES

Can medical expenses incurred before the HSA was established be paid from the HSA?

For HSAs established for calendar year 2005 and later years, medical expenses may not be paid from an HSA if the expenses were incurred before the HSA was established.

If each spouse has different coverage, which plan is used to determine eligibility?

For participants who are married, if either spouse has family coverage both are treated as having only that family coverage. If both have family coverage, the lower deductible is used to determine the maximum contribution permitted.

What happens under the HSA law once someone enrolls in Medicare?

Once an individual has enrolled in Medicare Part A or Part B, that person can no longer contribute to an HSA. However, he/she can use the accumulated funds to cover qualified medical expenses not covered under Medicare or a supplemental plan.

What happens if more money is contributed than allowed?

It is the responsibility of the accountholder to not exceed the maximum allowed contribution. To avoid a tax penalty, a refund of excess contributions and any interest must be requested through the HSA administrator. These excess funds and any income attributed to them must be removed from the account before the due date of the accountholder's federal tax return, including any extensions. Accountholders are subject to a 6% penalty on excess amounts.

If contributions can be made by anyone on behalf of the account beneficiary, who can legally take the tax deduction?

In computing adjusted gross income, an eligible individual can deduct contributions made on his/her behalf by a family member. Employer contributions to an employee's HSA are excludable from the employee's gross income, but are not deductible by the employee on his/her federal income tax return.

If an individual enrolls in a Qualified High Deductible Health Plan mid-month and establishes an HSA, when is the accountholder eligible to contribute to the HSA account?

An individual is eligible to contribute once the account has been established.

If my qualified health plan begins February 1 but I don't submit the HSA enrollment form to establish the financial account until March, what month do I pro-rate my contributions?

It's crucial that the health application and HSA enrollment form be remitted together. However, the pro-ration of your contributions is determined by the effective date of the qualified health plan which, in this case, is February 1.

When can I make my first contribution to the HSA?

Contributions can only be made after your HSA has been established. You should not mail a contribution until you receive your HSA bank account number.

What happens to the HSA balance at the end of the year?

Unspent HSA funds belong to the accountholder and roll over each year. There is no "use it or lose it" provision with HSAs. These funds, and any new contributions, can continue to be used for qualified medical expenses.

WITHDRAWALS AND DISBURSEMENTS

What can HSA funds be used for?

Funds should be used to pay for qualified medical expenses. However, if they're not used for qualified medical expenses by someone under age 65, the amount withdrawn is taxable and subject to a 10% penalty by the IRS. After age 65, there is no penalty for non-qualified withdrawals but amounts are taxable at ordinary income rates. Funds used to pay for the following are tax-free and penalty-free:

- Qualified medical expenses as defined under section 213 of the IRS Code
- COBRA insurance
- Health insurance premiums for those receiving unemployment compensation
- Qualified long-term care insurance and expenses
- Medicare and retiree health insurance premiums, but not Medicare supplement premiums
- Certain over-the-counter medications

Are disbursements for all non-qualified expenses subject to penalty – and who determines that?

The accountholder is responsible for determining if withdrawals are for qualified medical expenses. If the IRS questions any withdrawals, it is the sole responsibility of the accountholder to prove those withdrawals were for qualified medical expenses. The only time disbursements for non-qualified expenses are not subject to penalty is at age 65 and older.

If the entire family is not covered under an accountholder's QHDHP, can the accountholder still use his/her HSA funds to pay for qualified expenses incurred by family members not covered by the plan?

Yes. Per the Treasury Department, the accountholder may use HSA funds to pay the qualified expenses of dependents as defined under the federal tax code.

How do I order checks?

Checks can be ordered via the HSA Tools Web site at www.assuranthealth.com by selecting the My HSA Account tab or by calling the HSA Tools toll-free number at 866-899-6200. The first checkbook is provided at no cost.

How do I get additional debit cards?

Although one debit card (two if a spouse is covered) is sent when the account is first established, additional cards can be ordered via the HSA Tools Web site at www.assuranthealth.com by selecting the My HSA Account tab or by calling the HSA Tools toll-free number at 866-899-6200. Additional cards requested subsequent to the initial account set-up are \$5.00 each. There is no charge for replacement of a lost or stolen card.

If my qualified health plan begins February 1 but I don't submit the HSA enrollment form to establish the financial account until March, when can I begin to take disbursements from my account?

Qualified expenses incurred on or after March 1 are eligible for reimbursement.