

# **Custodial Considerations**

## **Health Savings Accounts**

# What is an HSA?

- ★ A health savings account (HSA) is a tax-favored account used to pay or reimburse qualified medical expenses.
- ★ A customer must be an eligible individual in order to open an HSA.
- ★ A qualified High Deductible Health Plan (HDHP) must be in place before an HSA can be opened.

# Custodian or Trustee?

- ★ Your bank will probably want to choose to serve as the **Custodian**  rather than as Trustee.
- ★ Being **Trustee** of the account carries with it other fiduciary responsibilities for the bank.

# In Opening the Account, Determine Customer's HSA Eligibility

## ★ Account owner represents that he/she:

- Is covered under a qualified high deductible health plan (HDHP).
- Is not covered by any other health plan that is not an HDHP (*with exceptions for plans providing preventive care and limited types of permitted insurance coverage*).
- Is not enrolled in Medicare.
- Cannot be claimed as a dependent on another person's tax return.

# **Additional Considerations for Eligibility**

- ★ **Is not covered by TRICARE**
- ★ **Has not received VA benefits in the last 3 months**
- ★ **Is not covered by an FSA except a Limited Purpose FSA**
- ★ **Is not covered by an HRA**

# 2007 Changes

- 1. Allow rollovers from FSA's and HRA's into HSA's**
- 2. Increase in annual HSA contribution**
- 3. Full HSA contribution regardless of month individual becomes eligible.**
- 4. One time transfer from IRA's to HSA's**

# 2007 Changes

5. **Certain FSA coverage treated as disregarded coverage**
6. **Earlier indexing of COLA**
7. **Allow greater employer contributions for lower paid employees**


## **Opening the Account**

# **Health Savings Custodial Account Documentation**



## Health Savings Custodial Account


Name of Account Owner (First name, MI, Last name)	Date of Birth of Account Owner	Social Security Number
Address of account owner (Street address, city, state, zipcode)		
Name of Custodian (Financial Institution)	Address or principal place of business of Custodian	

The account owner named above is establishing this health savings account (HSA) exclusively for the purpose of paying or reimbursing qualified medical expenses of the account owner, his or her spouse, and dependents. The account owner represents that, unless this account is used solely to make rollover contributions, he or she is eligible to contribute  to this HSA; specifically, that he or she: (1) is covered under a high deductible health plan (HDHP); (2) is not also covered by any other health plan that is not an HDHP (with certain exceptions for plans providing preventive care and limited types of permitted insurance and permitted coverage); (3) is not enrolled in Medicare; and (4) cannot be claimed as a dependent on another person's tax return.

\$ \_\_\_\_\_ dollars in cash is assigned to this custodial account.

The account owner and the custodian make the following agreement::

## Article I

- 1. The custodian will accept additional cash contributions for the tax year made by the account owner or on behalf of the account owner (by an employer, family member or any other person).  No contributions will be accepted by the custodian for any account owner that exceeds the maximum amount for family coverage plus the catch-up contribution.**
- 2. Contributions for any tax year may be made at any time before the deadline for filing the account owner's federal income tax return for that year (without extensions).**
- 3. Rollover contributions from an HSA or an Archer Medical Savings Account (Archer MSA) or in limited circumstances (unless prohibited under this agreement) need not be in cash and are not subject to the maximum annual contribution limit set forth in Article**

## Article II

1. For calendar year 2007, the maximum annual contribution limit for an account owner with single coverage is **\$2,850**. For calendar year 2007, the maximum annual contribution limit for an account owner with family coverage is **\$5,650**. These limits are subject to cost-of-living adjustments after 2007.
2. Contributions to Archer MSAs or other HSAs count toward the maximum annual contribution limit to this HSA.
3. For calendar year 2007, an additional **\$800 catch-up contribution may be made for an account owner who is at least age 55 or older** and not enrolled in Medicare. The catch-up contribution increases to \$900 in 2008, and \$1,000 in 2009 and later years.
4. Contributions in excess of the maximum annual contribution limit are subject to an excise tax. However, the catch-up contributions are not subject to an excise tax.

### Article III

It is the *responsibility of the account owner to determine whether contributions to this HSA have exceeded the maximum annual contribution* limit described in Article II.

If contributions to this HSA exceed the maximum annual contribution limit, the account owner shall notify the custodian that there exist excess contributions to the HSA.

It is the *responsibility of the account owner to request the withdrawal of the excess contribution* and any net income attributable to such excess contribution.

### Article IV


The account owner's interest in the balance in this custodial account is nonforfeitable.



## Article V

1. No part of the custodial funds in this account may be invested in life insurance contracts or in collectibles as defined in section 408 (m).
2. *The assets of this account may not be commingled with other property except in a common trust fund or common investment fund.*
3. Neither the account owner nor the custodian will engage in any prohibited transaction with respect to this account (such as borrowing or pledging the account or engaging in any other prohibited transaction as defined in section 4975).

## Article VI

1. *Distributions of funds from this HSA may be made upon the direction of the account owner.*
  2. Distributions from this HSA that are used exclusively to pay or reimburse qualified medical expenses of the account owner, his or her spouse, or dependents are tax-free. However, *distributions that are not used for qualified medical expenses are included in the account owner's gross income and are subject to an additional 10 percent tax on that amount.* The additional 10 percent tax does not apply if the distribution is made after the account owner's death, disability, or reaching age 65.
  3. The *custodian is not required to determine whether the distribution is for the payment or reimbursement of qualified medical expenses.* *Only the account owner is responsible for substantiating that the distribution is for the payment or reimbursement of qualified medical expenses.* Only the account owner is responsible for substantiating that the distribution is for qualified medical expenses and must maintain records sufficient to show, if required, that the distribution is tax-free.
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## Article VII

If the account owner dies before the entire interest in the account is distributed, the entire account will be disposed of as follows:

1. If the *beneficiary is the account owner's spouse, the HSA will become the spouse's HSA as of the date of death.*
2. If the *beneficiary is not the account owner's spouse, the HSA will cease to be an HSA as of the date of death.* If the beneficiary is the account owner's estate, the fair market value of the account as of the date of death is taxable on the account owner's final return. For other beneficiaries, the fair market value of the account is taxable to that person in the tax year that includes such date.

## Article VIII

1. **The account owner agrees to provide the custodian with information necessary for the custodian to prepare any report or return required by the IRS.**
2. ***The custodian agrees to prepare and submit any report or return as prescribed by the IRS.***

## Article IX

**Notwithstanding any other article that may be added or incorporated in this agreement, the provisions of Articles I through VIII and this sentence are controlling. Any additional article in this agreement that is inconsistent with section 223 or IRS published guidance will be void.**

## Article X

**This agreement will be amended from time to time to comply with the provisions of the Internal Revenue Code or IRS published guidance. Other amendments may be made with the consent of the persons whose signatures appear below.**

## Article XI

***Additional provisions on an attached page, if included, shall also apply to this account.***



## Health Savings Account Beneficiary Designation

Designation Type: Please check one of the following:

- Initial Beneficiary Designation:** I designate the individual(s) or entity named below as my primary and/or contingent beneficiary(ies) of this HSA.
- Change of Beneficiary(ies):** I designate the individual(s) or entity named below as my primary and/or contingent beneficiary(ies) of the account named above and hereby revoke all prior beneficiary(ies) designation, if any, made by me.
- Add beneficiary(ies):** I designate the individual(s) or entity named below as my primary and/or contingent beneficiary(ies) of the account named above. This list supplements, but does not replace, the beneficiary(ies) previously designated by me on the date specified. (When adding beneficiaries, if the share % of previously designated beneficiary(ies) changes, restate all beneficiary(ies) and the corresponding share % if the previous percentages are no longer correct.)

## **Beneficiary Designation**

**The following individual(s) or entity shall be my primary and/or contingent beneficiary(ies). If neither primary nor contingent is indicated, the individual or entity will be deemed to be a primary beneficiary. If more than one primary beneficiary is designated and no distribution percentages are indicated, the beneficiaries will be deemed to own equal share percentages in the account. Multiple contingent beneficiaries with no share percentage indicated will also be deemed to share equally. If primary or contingent beneficiary dies before me, his or her interest and the interest of his or her heirs shall terminate completely, and the percentage share of any remaining beneficiary(ies) shall be increased on a pro-rated basis. If no primary beneficiary(ies) survives me, the contingent beneficiary(ies) shall acquire the designated share of my account.**

**Current marital status:**  I am not married – I understand that if I become married in the future, I must complete a new Beneficiary Designation.

I am married – I understand that if I chose to designate a primary beneficiary other than my spouse, my spouse must sign below.

### **Spousal Consent**

**I am the spouse of the above-named Account Holder. I consent to the beneficiary designation(s) indicated above. No tax or legal advice was given to me by the Custodian.**

The background of the slide is a stylized American flag with stars and stripes. The text is overlaid on this background.

# Operational Considerations in opening an HSA

## 1. Type of Account - **Individual**

- *What kind of Fee?*

## 2. To Pay Interest

- *If so, how much?*
- *Perhaps a bonus?*

## **Operational Considerations in opening an HSA continued**

- 3. Administration Fee?**
- 4. Minimum Account Balance?**
  - *Fee?*
- 5. Limit withdrawals month/year?**

## **Operational Considerations in opening an HSA *continued***

### **6. Opening Account**

- **2 Accounts (*if not using Administration Service to track deposits, payments*)**
- **Free account**
- **Checks, fee?**

## **Operational Considerations in opening an HSA *continued***

- **Debit Card, fee?**
- **Credit Card, fee?**
- **Line of Credit, fee?**
- **Overdraft Privilege, *NOT recommended***
- **Pay Interest**

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## Operational Considerations in opening an HSA continued

### 7. Treatment of excess contributions and interest earned thereon

- *Do you charge a fee?*

### 8. HSA Specific Deposit Slips

- *Is deposit for current year or last year (Deluxe)*



Track deposits to avoid an overpayment

### 9. Transfer to spouse at death – beneficiary, ***NOT*** ***POD***

## **Operational Considerations in opening an HSA continued**

- 10. Transfer to estate at death**
- 11. Power of Attorney**
- 12. Rollovers/Transfers**

# **Operational Considerations in opening an HSA continued**

**13.Disclaimer**

**14.Privacy Notice**

**15.Website Access**

## Bank's Fee

Administration fees are not treated as taxable distributions as long as the fee is **not unreasonable**

**Any Questions?**

**Thank you for this  
opportunity to visit with you.  
Support of your Association  
is appreciated.**