Health Savings Account
Making HSAs easy for you to implement and for your employees to use

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Look for this light bulb throughout your handbook for tips or more information on a key topic.

Rules, dates, and amounts in this guide are valid as of October 2006, unless otherwise noted, and are subject to change.
HSA and HDHP overview

Using your Employer’s Guide

Thank you for choosing Humana’s Health Savings Account (HSA) – a great way to control your health benefits costs, while giving your employees greater control over how they spend their healthcare dollars.

This guide is designed to give you all 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. Humana aims to provide the guidance you need – when you need it. So keep this guide handy throughout the plan year, and let us know if you have questions we didn’t address. We value your feedback and look forward to working with you!

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.

With Humana’s HSA, an employee’s account can grow in an interest-bearing savings account at UMB Bank, a Fidelity money market account, a wide variety of mutual funds – or all three. Of course, the employee’s funds are always available if needed for qualified healthcare expenses.

Throughout this guide, you’ll see references to “UMB Bank,” the custodian for your employees’ HSAs. Employees who invest HSA funds go through UMB Financial Services.

UMB (NASDAQ symbol UMBF) is a full-service financial institution headquartered in Kansas City, Missouri. UMB has a 90-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 benefit from having Humana as a first point of contact for administration of both the health plan and the HSA, while they have access to the financial resources and guidance of UMB.
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:

- The minimum deductible and maximum out-of-pocket expense amounts are within a range the IRS sets. For reference, the 2007 minimum deductibles are $1,100 for single coverage and $2,200 for family coverage. The maximum deductibles are $2,850 for single coverage and $5,650 for family coverage.
- 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; employees may have only a small copayment for these services, rather than paying the full cost. Once an employee satisfies the deductible, the health plan begins to pay for all or a portion of covered services – the health plan’s Benefit Plan Document provides specifics – until the employee reaches the out-of-pocket maximum.

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.

Example:
Wendy paid $2,800 of her $3,000 deductible. She went to the doctor, and the charge was $200. Later that day, she filled a prescription that cost $50. Even though the doctor’s bill satisfied her deductible, she still needed to pay for the prescription because Humana had not processed the claims yet. If this happens, Humana reconciles the member’s responsibility after we receive the claims. If Wendy is responsible for coinsurance, we apply the extra $50 to her percentage. Any amount not needed for coinsurance is refunded to her.

Advantages for employers
One of the main advantages of an HSA is reducing your FICA and federal unemployment tax liability. When employees put pre-tax dollars in an HSA, your payroll taxes are reduced by those amounts – including FICA and federal unemployment taxes. You’ll save on state taxes, too – only Alabama, California, New Jersey, and Wisconsin 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 as a business expense.
- **Ease of administration** – Employees control their own accounts, so you’re free to concentrate on your business instead of worrying about fund distributions, expense verification, and other administrative functions.

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 – a lot or a little, depending on the employee’s account balance and investment decisions.
- **Tax savings** – HSA contributions don’t count toward the employee’s taxable income, so they can make their healthcare dollars go farther.

In the Appendix

Humana’s Premium and Tax Savings Analysis Worksheet can help you determine the potential cost savings of offering an HDHP with an HSA. It also allows you to “play with” employee premium levels to fit your cost-sharing program.

The worksheet models costs for the following scenarios:

- A combination of an HMO and PPO, without offering an HDHP
- An HDHP in addition to an HMO and PPO
- A stand-alone HDHP
How HSAs promote consumerism

As a leader in healthcare consumerism, Humana has a proven record of managing trend by involving employees in healthcare decision-making. A key advantage of an HSA is that it encourages employees to shop for value and price in healthcare, just as they do with other purchases – a change in behavior that ultimately reduces your health benefits costs. And to reinforce the “shopping” behavior, Humana gives members a debit card that’s tied to their HSA. This means they just swipe the card at the time of service to pay for doctor’s visits, prescriptions, and other healthcare services.

Humana’s HDHP with an HSA can be offered in addition to your other Humana standard offerings, as a total replacement option, or in conjunction with our proven trend reduction program, SmartSuite®. Contact your Humana sales representative for more information.
HSA Implementation

Implementation timeframe

The implementation timeframe varies for each customer. A Sales Account Coordinator works with both new and current customers to determine an implementation timeline for adding the HSA to their benefits package. For larger employers, the Account Service Manager or Account Service Coordinator appropriately manages all aspects of implementation.

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

Implementation documents

With assistance from your sales representative, you complete and return the following document related to the HSA:

- **Employer Group Application (EGA)** – You must complete an EGA to select the medical plans and any other benefits to be offered to employees – including HSAs. Be sure to indicate how much you will contribute, if any, to your employees’ HSAs – specifically the amount for single and family coverage.

In the Appendix

For reference, a sample copy of the group application form is included in the Appendix. Your sales representative provides your specific form.

Implementation process

A Humana sales contact 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 medical plans and other benefits, such as an HSA, and select your enrollment option (paper, Web, or electronic file). Each benefit has a separate component to complete. A Humana representative from sales will submit the documents to Humana’s home office.
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 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.
Employer Contributions

Determining your contribution approach

Employers have a great deal of flexibility in determining how much to contribute to employees’ HSAs. If you’re concerned about the immediate cash flow impact of your contributions, you’ll be pleased to know Humana provides several timing options. You can contribute to employees’ accounts in one of the following three ways:

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

Tax implications for the options vary. Your sales representative or broker can guide you as you select the best arrangement for your organization. Be sure employees know when and how much you are contributing, so they can determine their own contributions.

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 employee’s HDHP deductible or the IRS maximum annual contribution, whichever is lower.

Contributing with a cafeteria plan

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. Also, there are no exceptions based on corporate structure; even if your organization is a nonprofit, you must perform this testing.

For more details on factors involved in determining the maximum annual contribution for the HSA, see the “Employee contributions” section.
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.

Humana can assist you with the testing of your plan, or you may choose to have another entity perform the tests for you. If you would like Humana to perform the testing, as described below, please contact your Humana representative. Your representative will also discuss this requirement with you during your plan’s implementation.

Humana performs the following nondiscrimination test to ensure employers demonstrate compliance with IRS nondiscrimination rules. The following objective test is performed once during the plan year:

- **Concentration test** for all Section 125 benefits – Determines whether cafeteria plan benefits favor key employees.

The IRS defines “key employees” as:
- Officers with annual compensation greater than $140,000 (indexed by the IRS for 2006)
- Individuals with more than five percent ownership
- Employees with more than one percent ownership and annual compensation greater than $150,000

The IRS defines “highly compensated employees” as:
- Individuals who have more than five percent ownership during the current or previous plan year
- Those who have an annual compensation of more than $100,000 (indexed for 2006) in the previous plan year

Contributing outside of 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 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).

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

Self-employed individuals, partners, and more than two percent S-corporation shareholders are not 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 a partner or more than two percent S-corporation shareholder’s HSA:

• Impact to the partnership – The partner is not eligible to participate in the salary reduction plan, so the partnership does not receive any tax savings for partner contributions.
• Impact to the partner – All contributions are eligible to be deducted from the partner’s taxable income, so the partner 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:

1. The employee is covered by a specific plan called a High Deductible Health Plan
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 cannot 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 before the HDHP and HSA go into effect.

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.

The combination gives employees:

• Security that they have HSA funds to cover medical and prescription drug expenses before meeting the deductible
• The opportunity to set aside additional tax-free money and get greater tax savings
Employees who have an HSA and a limited FSA will receive a separate HumanaAccess 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.

The front of the limited FSA card may show health plan information, such as the member ID and group number. Because the FSA is limited, this card only works at dental and vision care providers. Employees can’t use the HumanaAccess Card to pay for preventive care services from the limited FSA, but they can request reimbursement from the limited FSA.

**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

**Base calculation for maximum annual contribution**

In general, an employee’s maximum annual contribution – including contributions from you, the employee, and anyone else – cannot be higher than the HDHP deductible or a pre-set IRS maximum annual contribution, whichever is lower. The following two sections describe the base calculation. Subsequent sections delve into potential adjustments: catch-up contributions, partial-year HDHP coverage, a plan year longer than 12 months, and fourth quarter carry-over credit.
Single coverage base calculation

For single coverage, the employee’s maximum annual contribution is the lesser of:

• The annual deductible  

or

• The IRS maximum annual contribution for the year

Family coverage with or without embedded deductible

For family coverage, the calculation is slightly different depending on the kind of plan the employee has.

<table>
<thead>
<tr>
<th>If your plan has one deductible for the whole family:</th>
<th>If your plan has a deductible for each individual, in addition to the family deductible:</th>
</tr>
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<tbody>
<tr>
<td>The entire family deductible must be satisfied – either by one family member or a combination – before the coinsurance phase begins. This is also called an “aggregate deductible” plan.</td>
<td>If one family member reaches his or her individual deductible, the plan starts paying coinsurance for that person – but other family members are responsible for their medical costs until they meet their own deductible or until the entire family deductible is met. This is also called an “embedded deductible” plan.</td>
</tr>
</tbody>
</table>

Your maximum annual contribution is the lesser of:  

• Your annual family deductible  

or

• The IRS maximum annual contribution for the year

Christopher is enrolling in an HDHP for himself:

• The annual deductible is $2,000  

• The IRS maximum annual contribution is $2,850 (this is the 2007 amount, which is expected to change every year)

So, Christopher is allowed to contribute $2,000 to his account – the lesser of $2,000 or $2,850.
Denise is enrolling in an HDHP for herself and her two children:
- The family deductible is $6,000
- Each family member has an individual deductible of $3,000
- The IRS maximum annual contribution for the year is $5,650
  (this is the 2007 amount, which is expected to change every year)
For this example, Denise is allowed to contribute $5,650 – the lesser of $9,000 ($3,000 x 3 family members), $6,000 (the family deductible), or $5,650 (the maximum annual contribution).

For many people, the basic calculations on the previous page are all an employee needs to know to determine the maximum annual contribution. However, an employee might need to adjust the amount further if any of the following descriptions apply.

Adjusting for 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 increases by $100 each year until 2009, when it’s capped at $1,000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Catch-Up Contribution</th>
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<tbody>
<tr>
<td>2005</td>
<td>$600</td>
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<td>2006</td>
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<td>2007</td>
<td>$800</td>
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<tr>
<td>2008</td>
<td>$900</td>
</tr>
<tr>
<td>2009</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

If an employee turns 55 during the calendar year, the catch-up amount isn’t prorated based on his or her birth date. The employee is eligible to contribute the entire amount. However, as explained below, 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 catch-up amount is the same. However, the spouse can set up his or her own HSA (if eligible) and take advantage of the catch-up contribution, as well.
Prorating for partial-year HDHP coverage

The maximum annual contribution and catch-up contribution amounts assume the employee is covered by an HDHP for the entire year. If an employee doesn’t have an HDHP for the entire year, both amounts are prorated.

This example continues the “Christopher” example from earlier. If Christopher was going to have an HDHP for the entire year, his maximum annual contribution would be $2,000. But he’s actually enrolling in June, so he’ll have an HDHP from July 1 to December 31 this calendar year.

1. Start with the plan year deductible, $2,000
2. Divide $2,000 by 12 (number of months in the year) = $166.66
3. Multiply $166.66 by 6 (full months Christopher will have an HDHP) = $999.96
4. Christopher’s prorated maximum annual contribution is $999.96

Adjusting for a plan year longer than 12 months or fourth quarter carry-over credit

Again, the maximum annual contribution and catch-up contribution amounts assume HDHP coverage for a calendar year. However, some plans are in effect longer. In this situation, the basic formula needs to be “annualized.” The same calculation applies if employees have more than 12 months to meet the deductible, which is also called “fourth quarter carry-over credit.” Employees who take advantage of the credit may need to make other adjustments this guide doesn’t cover in detail.

To annualize the deductible:

- Identify the HDHP deductible for the plan year
- Divide the deductible by the number of months allowed to satisfy the deductible
- Multiply by 12
- Now you can use that number in the basic IRS formula to calculate the maximum annual contribution.

Jim’s plan is in effect from January 1, 2007, to March 31, 2008 – a 15-month plan year. Jim selects a plan with a $4,000 family deductible. To annualize the deductible:

1. Start with the plan year deductible, $4,000
2. Divide $4,000 by 15 = $266.67
3. Multiply $266.67 by 12 = $3,200
4. Use the $3,200 number in the basic IRS formula
**Contribution guidance – HSA Planner and Worksheet**

Because so many variables go into determining the IRS maximum annual contribution – including the deductible, employee’s age, and IRS rules – 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. As with the online planner, the worksheet covers:

- Maximum annual contribution
- HSA-eligible expenses
- Tax benefits

Employees need the benefit description for the HDHP to complete the worksheet. After filling out the worksheet, the employee has all the information necessary to complete the HSA section of the enrollment application.

Humana has created four versions of the worksheet to reflect the various HDHPs an employer might offer:

- Calendar Year with Aggregate Deductible
- Calendar Year with Embedded (Individual) Deductible
- Plan Year with Aggregate Deductible
- Plan Year with Embedded (Individual) Deductible

Employees always have access to an HSA Planner in the unsecured member section of [www.humana.com](http://www.humana.com).

**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 raise or lower their payroll deduction for the HSA anytime during the plan year. Refer to the “contribution methods” section for additional details.
HSA effective date

Employees can only use HSA funds 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 August 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.

Employees also have to wait until the money is actually in their account to spend it. See the “Spending HSA funds” section for more details.

Other ways to contribute

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 manual 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.

If an employee has an HSA or Archer Medical Savings Account (MSA) with another financial institution, the employee can roll over or transfer those funds into Humana’s HSA. Rollovers and transfers don’t count toward the maximum annual contribution.
Employees have two ways to transfer funds to UMB:

- **Rollovers** – 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.

- **Transfers** – The current account custodian sends money directly to UMB. Employees can download a “Trustee Transfer” form from the HSA section of MyBenefits on MyHumana. Account custodians are allowed to limit fund transfers and charge fees, but UMB doesn’t have any transfer restrictions or transfer fees.

**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 tax filing deadline (April 15) AND claiming the excess on the income tax form for that year as gross income.

Rollover contributions from another HSA or Archer Medical Savings Account (MSA) don’t 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.

**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 it needs to prevent an individual employee from going over his or her specific maximum annual contribution – so it’s the employee’s responsibility to stay within the IRS limits.
Contribution Methods

Overview of contribution methods

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

- Electronic File Transmission
- “Check and List” or
- 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. Check with your Humana sales representative or implementation manager if you need additional details.

Electronic File Transmission

“Electronic File Transmission” refers to any method that involves sending and receiving data electronically. Our Electronic Transmissions team ensures Humana-approved electronic transfer methods are secure and compliant with both Sarbanes Oxley (SOX) and HIPAA.

How to set up this method

1. Choose “Electronic” on the employer group application
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. The specification document explains the following:
   a. What data is required (content)
   b. How each piece of information should be formatted
   c. Order (layout) of the fields
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 contributions

1. You send the total HSA contribution to UMB. Contributions should be sent to the following account: the routing number is **101000695**, and the bank account number is **987163669**.

2. You send a contribution file to Humana with the required information.

   ![Diagram of contribution process]

   **Wire or ACH $**

   Contribution file without account numbers

   Contribution file with account numbers

   Bank

This method may be a good fit for you if …

- You can meet Humana’s technical requirements – Humana has strict file transfer requirements to protect our members’ privacy and ensure SOX and HIPAA compliance. If your company or organization doesn’t have the resources, the check and list method will be a better fit.

- You want to streamline – Contributions to the HSA commonly take place through employee paycheck deductions. So you can include all contributions – from the employer and employees – on a single file transmission.

In the Appendix:

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. A copy of the form is included in the Appendix.
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.

How to set up this method

1. Choose “Paper” on the employer group application
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
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
5. You collect each employee’s account number and contribution amount

How to send contributions

1. Send a check made payable to UMB to:
   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.
If you have any problems with this process, you’ll work with UMB directly. Humana is not involved in resolving issues associated with “Check and List.”

**This method may be a good fit for you if …**

- Your systems don’t meet the technical requirements for electronic transfer – This process is favored by smaller companies and organizations or those less dependent on technology.
- You don’t mind having a more manually intensive process – You’ll have more hands-on involvement with contributions. Of course, keep in mind that manual processes are always subject to human error.

**Payroll vendor**

You’re welcome to use a third-party payroll company to handle HSA contributions.

**How to set up this method**

- Work with your payroll vendor to ensure 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 contributions**

- 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

**This method may be a good fit for you if …**

- You want to give employees quick access to contributions – A payroll vendor can make direct deposits to employees’ HSAs, so employees may have access to their contributions sooner.
- You want to lighten your administrative load – If you’re already working with a payroll vendor, adding HSAs to the mix should be a simple adjustment. Most major payroll companies are familiar with UMB’s HSA processes. Humana can assist in your discussions with payroll vendors – for instance, in talking about how to set up the process. However, a payroll vendor is still a third party administrator (TPA).
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. Many over-the-counter (OTC) drugs 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 exactly which expenses are qualified, go to www.irs.gov or your local IRS office and look up IRS Code Section 213.

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 10 percent penalty tax. Employees do not pay a penalty if they take money out of the HSA after they reach the age of 65, becomes disabled, or die.

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 deposit. In this situation, the employee has to pay back the money by April 15 of the year after using the money by mistake – the tax filing deadline for the year.
Availability of funds

Once an employee’s HSA is effective, the employee can start spending HSA money immediately after it is 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 are free to 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 can only withdraw funds that are actually in the account. If an employee has a large health expense at the beginning of the year, that means the employee might not have enough in the account to cover all the costs. If this happens, 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.

Sue chooses to put $1,200 in an HSA, and her plan year starts in January. Sue gets paid once a month, so she deposits $100 per pay period.

Sue has outpatient surgery in June and her doctor’s bills total $1,000. Sue can take $600 out of the HSA now to pay the bills, but she’ll have to pay the remaining $400 another way.

Later in the year, Sue can request reimbursement for that $400. She can request reimbursement every month as her paycheck deductions go in … or she can wait until October, when $400 is in the account.

HumanaAccess™ Visa® Debit Card overview

For most transactions, the HumanaAccess Card is the fastest, easiest way to spend HSA funds:

- It draws money from the account instantly
- Employees don’t have to pay out of pocket and then wait for reimbursement
- It works at many healthcare provider locations, from doctor’s offices to pharmacies to eye doctors

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. The categories are:

- Medical
- Dental
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.

If the card is lost, the employee should call Humana Spending Account Administration line right away at 1-800-604-6228. Once we’re alerted, we take steps to protect the account balance and get a new card to the employee immediately. Representatives are available from 8 a.m. to 7 p.m. Eastern time – but employees can alert us anytime using our automated information line, which is available 24 hours a day through the same phone number.

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:
- Activate it right away, so the card is ready to go when needed – employees simply call the toll-free number on the card, 1-800-292-2100, 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 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 HumanaAccess 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 HumanaAccess Card to pay later.

To pay doctor’s office bills with the HumanaAccess Card, employees should:

• Wait for the doctor to send a bill showing Humana’s discounted rate and the member responsibility. The section below includes information about what employees can do if the office staff wants payment before Humana processes the claim.
• 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. See below for information about how employees can request reimbursement online and by phone.

To use the HumanaAccess Card at a pharmacy for prescription drugs and over-the-counter drugs, employees simply:

• Present the card for payment or swipe it through the credit card machine
• Select “credit” as the transaction type — the card doesn’t have a PIN
• 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 form is available in the Provider section of Humana’s Website at www.humana.com/providers/humanaaccess_card.asp.

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 HumanaAccess 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 first ask the doctor’s office staff to credit the HumanaAccess 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 “re-deposit.” The deposit slip is available through the HSA section of MyBenefits on the MyHumana page. The address:

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

Reasons the HumanaAccess 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 HumanaAccess Card might 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

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.

If an employee has tried all the suggestions above, and the card still doesn’t work, the employee can call Humana’s Spending Account Administration team toll-free at 1-800-604-6228. Representatives are available from 8 a.m. to 7 p.m. Eastern time. Employees don’t have to memorize this phone number – it’s usually on the back of the HumanaAccess Card.
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 – the password-protected personal page on [www.humana.com](http://www.humana.com) – and click the “My Account” link in the HSA section of MyBenefits. 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.

Regardless of where and how employees use HSA funds, they should always save a detailed receipt. Account-holders are responsible for verifying expenses if the IRS requests documentation, as described below. There is no time limit on when the IRS can request a receipt.

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.

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 MyClaims section and printing the “Claim Details” page.

As part of their welcome packet, employees receive a “My Humana records and receipts” folder, which makes it easy to keep track of receipts and EOBs.
Three ways to earn money on HSA funds

Interest-bearing savings account

Employees’ HSA paycheck deductions go into an FDIC-insured, interest-bearing savings account at UMB Bank, Humana’s financial partner. They can leave the money in the savings account or spend it on eligible healthcare expenses.

Unless employees open an HSA money market sweep account or investment account, all contributions to their HSA remain in their interest-bearing savings account at UMB. An employee can have a savings account, a money market sweep account, and an investment account – all at the same time.

The money in the employee's savings account earns interest on the first dollar contributed. Interest is tax-free, calculated daily, and added to the account monthly. The interest rate depends on the employee’s account balance. For reference, here are the interest rates as of October 1, 2006:

<table>
<thead>
<tr>
<th>HSA Balance</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $499.99</td>
<td>1.00%</td>
</tr>
<tr>
<td>$500.00 and above</td>
<td>4.00%</td>
</tr>
</tbody>
</table>

Employees can find current interest rates for the UMB interest-bearing savings account on Humana’s Website. They simply log in to MyHumana, choose the “My Account” link in the HSA section of MyBenefits, and choose the “HSA Maintenance” link.

If employees have more money in their interest-bearing savings account than they need to cover healthcare expenses and account fees, they can invest excess funds in a money market “sweep” account or brokerage account.
Money market “sweep” account

With this option, any amount over $1,000 is “swept” from the employee’s interest-bearing savings account to a Fidelity money market fund (ticker symbol: FMPXX) automatically. If the savings account balance falls below $1,000, UMB sells enough sweep account shares to replenish the savings account. As with the interest-bearing savings account, capital gains on the money market account are tax-exempt.

Advantages of the sweep account:
• Opportunity for higher earnings on HSA dollars – UMB and Humana offer one of the highest money market sweep rates available
• Easy and convenient – excess HSA funds go into the sweep account automatically on a daily basis
• HSA funds available when needed – funds sweep back into interest-bearing savings account if balance falls below $1,000

To open a sweep account, an employee must have at least $1,000 in his or her deposit account. Signing up is easy – the employee logs in to MyHumana, chooses the “My Account” link in the HSA section of MyBenefits, and chooses the “HSA Investments” link. Employees can also call UMB to set up a sweep account. An employee may elect to participate in the money market sweep account at any time, even if the employee’s HSA balance is zero. However, money will not sweep into the account until the minimum of $1,000 is satisfied.

An investment in the Fidelity money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

Self-directed brokerage account

Once an employee’s HSA savings account balance reaches at least $2,000, the employee has the option to move funds to an investment account through UMB Financial Services. As with the savings account, capital gains on the brokerage account are tax-exempt.

Advantages of the brokerage account:
• Opportunity for higher earnings on HSA dollars
• Employees can choose from nationally recognized mutual fund families
• Most fund options have a 4- or 5-star Morningstar rating
• Employees can follow current and past performance of their investments online

While this option could yield greater returns than the money market sweep or savings account, it’s important to know that mutual funds are not federally insured, and capital gains are not guaranteed. Also, when an employee activates this account, a monthly fee of $1.50 will be taken out of the cash account. See the next section for additional information about fees with each kind of account.
With the brokerage account, employees have a choice of 188 mutual funds from seven mutual fund families:

- AIM
- American
- Federated
- Fidelity
- Franklin Templeton
- Oppenheimer
- UMB Scout Funds

To open a brokerage account, the employee must have at least $2,000 in his or her accounts. The employee logs in to MyHumana, chooses the “My Account” link in the HSA section of MyBenefits, and chooses the “HSA Investments” link. From there, the employee goes to the UMB Financial Services Website, where he or she can sign up for a brokerage account and use online tools to help with choosing investments. Employees can also call UMB to set up a brokerage account.

With an HSA, employees have complete control of how they use their money. Humana can explain the benefits of investing, but we do not give mutual fund advice. Employees can contact UMB Financial Services to get a prospectus for any mutual fund they’re interested in, and UMB Financial Services provides tools to help with financial decisions.
Account fees

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. Unless noted otherwise, fees are as of January 1, 2007, and are subject to change.

Account set-up fee

<table>
<thead>
<tr>
<th></th>
<th>Fully insured customers</th>
<th>Self-funded customers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0</td>
<td>Varies – a one-time set-up fee may apply</td>
</tr>
</tbody>
</table>

Monthly administration fees

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Fee Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest-bearing savings account</td>
<td>$3.75 per month per account – may be paid by the employer, the employee, or combination of both</td>
</tr>
<tr>
<td>Money market sweep account</td>
<td>No charge</td>
</tr>
<tr>
<td>Monthly investment account fee</td>
<td>$1.50 per month per account</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Monthly Charge to Employer</th>
<th>Monthly Charge to Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer pays 100%</td>
<td>$3.75</td>
<td>$0.00</td>
</tr>
<tr>
<td>Employer pays 50%</td>
<td>$1.88</td>
<td>$1.87</td>
</tr>
<tr>
<td>Employer pays 0%</td>
<td>$0.00</td>
<td>$3.75</td>
</tr>
</tbody>
</table>

Whether you choose to pay the entire fee, have employees pay the entire fee, or split the fee, employees must receive the UMB Bank Terms and Conditions form when they enroll in the HSA. The form is built into Humana’s online Enrollment Center. If your employees don’t enroll online, you can find the form in your account implementation package or contact your Humana sales representative.
### Special fees

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>HumanaAccess Card transactions</td>
<td>No charge</td>
</tr>
<tr>
<td>Overdrafts/returned items – insufficient funds</td>
<td>$25.00 each item</td>
</tr>
<tr>
<td>Wire transfer – a deposit or withdrawal via wire transfer</td>
<td>$15.00 each transfer</td>
</tr>
<tr>
<td>Account closing</td>
<td>$15.00 each account</td>
</tr>
<tr>
<td>Return deposit – a deposit sent directly to UMB fails to clear</td>
<td>$3.00 each check</td>
</tr>
<tr>
<td>Stop payment requests – applies only if the employee has a checkbook</td>
<td>$20.00 each check</td>
</tr>
<tr>
<td>Check copies – applies only if the employee has a checkbook for the</td>
<td>$2.00 each copy</td>
</tr>
<tr>
<td>account</td>
<td></td>
</tr>
<tr>
<td>Check reimbursement – when an employee requests a check from UMB</td>
<td>$15.00 each check</td>
</tr>
<tr>
<td>Excess contribution – cost to handle and return deposits above the</td>
<td>$15.00 each deposit until</td>
</tr>
<tr>
<td>maximum annual contribution for family coverage plus one catch-up</td>
<td>member changes election</td>
</tr>
<tr>
<td>contribution</td>
<td>amount or removes excess</td>
</tr>
<tr>
<td>Inactive savings account – no deposits or withdrawals for 24</td>
<td>$1.00 each month, beginning</td>
</tr>
<tr>
<td>consecutive months</td>
<td>after the 24-month</td>
</tr>
<tr>
<td></td>
<td>inactivity period</td>
</tr>
<tr>
<td>Inactive investment account – no buys or sells in a calendar year</td>
<td>$25.00 each year</td>
</tr>
<tr>
<td>Investment fee – purchase or sale of mutual funds</td>
<td>$20.00 each transaction</td>
</tr>
<tr>
<td>Recurring purchases equal to or more than $100</td>
<td>$2.00 each purchase</td>
</tr>
</tbody>
</table>

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.
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 on MyHumana. Employees click the “My Account” link under HSA in the MyBenefits section and choose the “HSA Maintenance” link.

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

UMB Bank, n.a.
P.O. Box 419226
Kansas City, Missouri 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.
Employee communications and contacts

The importance of a pre-enrollment communications plan

A well-thought-out communications 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

Our experience shows good communications can:

- **Encourage employee involvement** – With information and guidance, employees can compare health plans and prices, ask the right questions when making healthcare decisions, and look for the best value in quality and cost of care.
- **Reduce costs** – When employees become more involved in choosing and using their benefits, they naturally start changing their behavior. This change can lead to lower healthcare costs for you and your employees.
- **Increase understanding of plan** – 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.

Guidance Humana provides

Humana partners with our customers to communicate with employees before, during, and after enrollment. The guidance we provide shows members how to take more control of their healthcare – for instance, by comparison shopping for services – and how to maintain their health.

Specifically for the HSA, we send all new HSA enrollees an HSA Handbook – an “owner’s manual” filled with useful information that helps your employees understand HSAs and maximize their advantages.

For information about Humana’s pre- and post-enrollment communications, contact your Humana sales representative.

Materials in Spanish

Humana recognizes the need for materials in Spanish. We offer many pre- and post-enrollment communications in Spanish, including these materials specifically for the HSA:

- Money Market Sweep Account Enrollment Form
- Investment Account Enrollment Form
• List of Mutual Funds offered in the HSA
• Terms and Conditions

For information about Spanish-language materials, contact your Humana sales representative.

**Online guidance and tools**

During the year, employees can log in to MyHumana, their password-protected, personal page on [www.humana.com](http://www.humana.com), for helpful services:

- Review up to 90 days of transactions
- Request additional HumanaAccess℠ Visa® Debit Cards
- Download deposit slips, withdrawal forms, beneficiary designation forms, account closure forms, and more
- Check interest rates for the HSA
- Review frequently asked questions
- Set up investments

Employees can also use MyFinancial Tools in MyHumana:

- Estimate My Healthcare Costs
- Estimate My Costs for Healthcare Services
- How Much Have I Spent?
- My Spending Accounts
- Rx Calculator℠

To register for MyHumana, employees just click the “Register” link on Humana’s home page and follow the easy instructions.

**Account balance information**

To check their HSA balance online, employees can log in to MyHumana – the password-protected, personal page on [www.humana.com](http://www.humana.com) – and click the “My Account” link in the HSA section of MyBenefits. 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 HumanaAccess Card.

**Monthly statement**

UMB sends a monthly statement outlining activity for the interest-bearing savings account and money market sweep account. If an employee chooses to invest HSA money in mutual funds, the employee will also receive monthly investment statements from UMB and UMB Financial Services related to the brokerage account. UMB statements also contain customer service contact numbers in case the employee has any questions.
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, 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 account holder 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 the beneficiary is the estate, 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.

Employees can download a beneficiary designation form on MyHumana – each member’s password-protected, personal page on [www.humana.com](http://www.humana.com) – or call Humana’s spending account administration phone number for a form.
One of the greatest benefits of an HSA is that employees don’t pay federal and FICA taxes on contributions – and they also may save on state taxes.* Employees don’t pay taxes when they use the money for qualified healthcare expenses, either. For that reason, the IRS requires paperwork related to HSA contributions and withdrawals.

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, sends this form to employees by January 31. The form reports all distributions from the account.

- **Form 5498-SA** – UMB sends 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.

*As of the date this handbook was published, Alabama, California, New Jersey, and Wisconsin don’t allow employers or employees to deduct HSA contributions.*
Appendix:
Worksheets and sample forms

Premium and Tax Savings Analysis Worksheet

Employer Group Application (EGA) Form

HSA Employee Authorization Form

Employer Contribution Form

Sample Qualified Expense List

Fee Disclosures

Group Application Form

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

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

Our health benefit plans have limitations and exclusions.

An HSA is not a health benefit plan