

Any distribution not used to pay for qualified medical expenses must be reported when filing taxes. The account beneficiary is subject to an additional 10% tax.*

Individuals should consult with their HSA administrator or a CPA before taking a questionable distribution.

* *Except in the case of distributions made after the account beneficiary's death, disability, or attaining age 65.*

Where can an HSA be set up?

The HSA Account

An HSA account can be set up with any administrator or financial institution that offers HSA accounts. We have also made arrangements with HSA Bank to provide HSA accounts to any of our insureds who purchase one of our high-deductible health plans.

HSA Bank, formerly known as MSA Bank, combines convenience, service, and savings with its HSAs. HSA Bank offers low account maintenance fees, high interest rates, and 24-hour account access

online or through an automated telephone system. Visit their website at www.hsabank.com or call the dedicated Pekin Life Insurance Company toll free number at 877-851-5276 for further details. HSA Bank has knowledgeable personal bankers available to answer any HSA questions you may have. HSA Bank is not affiliated with Pekin Life Insurance Company.

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We Specialize in Individual and Group Health Insurance

Pekin Life Insurance Company

Health

Savings Accounts

(HSAs) Guide



Combine a Flex Choice Plan from Pekin Life Insurance Company with an HSA for Lower Premiums and Tax Advantages

Pekin Life Insurance Company believes that the idea behind Health Savings Accounts is quite simple and is an exciting and innovative approach to fighting the rising cost of health care. With individuals managing some of their own health care dollars through accounts they own and control, this should lead to a wiser consumer of health care. These individuals should be able to profit from this wise consumption of medical care by having a Health Savings Account that grows tax free.

A Health Savings Account is paired with a qualified high-deductible health plan, with the expectation that this will result in reduced premium for the health insurance plan and allow more control over health care expenditures by the consumer.

What is an HSA?

An HSA plan has two components.

1. A qualified high-deductible health insurance plan.
2. An Individual Tax-Exempt Trust Account (savings/investments).

The trust account is designed to pay for current medical expenses and/or provide savings for the future. Money put into the account can be used either during the year or accumulated in the account.

Individuals can deduct amounts contributed to the HSA account from their gross income, resulting in tax-free medical dollars. The account is similar to an IRA account; however, it is for qualified medical expenses.

Why have an HSA?

- To combat the rising cost of health care.
- Recent trends in cost shifting from employers to employees is noticeable and has employees vested in finding a solution to the problem.
- To make the health care system cost-efficient by reducing the subsidies inherent in a third-party payment system.
- Reward individuals that efficiently manage their own health care dollars.
- Desire for individuals to take more control over *how* their own medical dollars are spent.
- Provide a lifetime savings vehicle for medical expenses.
- Individuals want to have more control over their financial destiny.

Who is eligible for an HSA?

Employees of any size business, self-employed individuals, and individuals and families who are not self-employed.

An individual needs to be covered by a QUALIFIED high-deductible health plan to set up a Health Savings Account.

Who is not eligible for an HSA?

Individuals covered by a health plan that is not a qualified high-deductible plan.

Individuals who may be claimed as a dependent on someone else's tax return.

Individuals who are entitled to Medicare benefits (usually age 65 or older).

Note: A spouse can have single coverage under an HSA, if they are not covered under the other spouse's plan. The account, however, is for the individual covered under the HSA qualified plan only.

Do I need a certain type of insurance plan?

Yes. The plan needs to be a qualified high-deductible health plan (HDHP).

A qualified HDHP is a health plan that meets the following requirements.

- These plans do not have co-pays for doctor visits or prescription drugs.
- There may be a first-dollar benefit or low-deductible benefit for preventive care only.

Individual Coverage

- Annual deductible is \$1,000 minimum.
- Annual out-of-pocket expense limit is not more than \$5,000 for in network.

Family Coverage

- Annual deductible is \$2,000 minimum.
- Annual out-of-pocket expense limit is not more than \$10,000 for in network.
- In the case of family coverage, a plan is only an HDHP if under the terms of the plan no amounts other than wellness benefits are payable until the aggregate family deductible is met.

How much may be contributed to an HSA in a calendar year?

For plans with coverage effective January 1, 2005:

Individual

You and/or your employer may contribute up to 100% of the in network calendar year deductible amount or \$2,650, whichever is LESS.

Family

You and/or your employer may contribute up to 100% of the in network deductible amount or \$5,250, whichever is LESS.

For plans with coverage effective after January 1, 2005: The contributions are pro-rated based upon the number of whole months covered under the qualified insurance plan. One-twelfth for every month; for example, if coverage begins in November, only two-twelfths of the maximum amount is permitted.

While annual contributions are limited based upon the deductible, there is no maximum limit on the accumulated balance of the trust account.

How does an employer benefit from an HSA Plan?

Reduced Premiums

You can reduce your insurance premiums substantially by switching to an HSA qualified high-deductible health plan.

Lower Fixed Costs of Health Insurance Plan

The premium payments and account funding can be decided independently and reviewed annually.

Deliver More Benefit Dollars to Employees

Instead of paying 100% of insurance dollars for the insurance, you can deliver some of those dollars directly to employees by funding a portion of their HSA account.

Provide Incentives to Employees to Get Involved with Healthcare Decisions

The reallocation of premium dollars to individual employees' accounts gives them a personal interest in making sure their health care dollars are wisely spent.

Tax Savings

Your contributions to the HSA are made with pre-tax dollars.

Employer contributions to the employee's HSA are treated the same as employer-provided health insurance premiums and are excludable from the employee's gross income.

The employer contributions are not subject to withholding from wages for income tax or subject to the Federal Insurance Contributions Act (FICA) or the Federal Unemployment Tax Act (FUTA).

What are the benefits of HSA Plans for an employee or individual?

Control

The HSA can be used to pay for any qualified medical expense, as defined by the IRS.

Savings and Investments

Unlike premiums, unused HSA dollars remain in the HSA until you use them later.

Flexibility

The HSA dollars can pay for items covered by the health insurance plan (but subject to deductible or coinsurance), but also a much broader definition as defined by the IRS which includes dental, vision, orthodontia, over-the-counter medicine, and others (not all of these are applied to the insurance plan deductible). These may be expenses individuals are currently routinely paying for using post-tax dollars.

Portability

If an employee leaves his current employer, he/she can take the HSA (the accumulated funds in the account) with them.

Tax Savings

Contributions to the HSA are tax deductible up to the maximum amount. Contributions can be deducted from adjusted gross income. Qualified medical expenses can be paid for from the account tax free. Interest and any capital gains on investments accumulate tax deferred until age 65. At this point, individuals have the opportunity to continue to use accumulated savings for medical expenses tax free, or withdraw them for non-qualified expenses at normal tax rates.

No Use-It-Or-Lose-It

Balances roll from year to year, so you don't need a crystal ball to forecast medical expenses in the next year.

What are "Qualified Medical Expenses?"

Qualified medical expenses must be incurred AFTER the HSA coverage has been established.

The qualified medical expenses are defined in Section 213 (d) of the Internal Revenue Code. Also, the IRS Publication 502 has a checklist of expenses that can be itemized. Most of these expenses

qualify for tax-free withdrawal from an HSA, unless the expenses were already reimbursed by your health care coverage.

To order IRS Publication 502, call 1-800-TAX-FORM.

Are health insurance premiums qualified medical expenses?

In most cases, NO.

However, there are the following exceptions.

- Long-term care insurance premiums.
- COBRA health care continuation coverage premiums.
- Premiums for health coverage while an individual is receiving unemployment compensation.
- For individuals over age 65 certain medicare premiums (not medicare supplement premiums).

Check with the HSA administrator or a CPA prior to using any HSA funds to pay premiums.

How does an individual fund the HSA?

Funding Options

- Make regular monthly contributions to the HSA account, the same way you make premium payments on health insurance. There is no requirement to prefund the account.
- If you have not deposited the maximum contribution in a given plan year, use the funding grace period of the first quarter to consider if you should.
- Build the HSA balance to a level of exposure that you are comfortable with, and fund on an as-needed basis after that.
- Individuals age 55 and older can make additional contributions each year in excess of the limits stated earlier (\$600 more in 2005 increasing by \$100 each year until \$1,000 more in years 2009 and later).

How can withdrawals be made from an HSA?

There are a number of ways to manage an HSA account and the disbursements (or payments). *These strategies may have certain benefits and risks that may or may not be advisable given your health history and/or financial situation. Please consult your tax or financial advisor as needed.*

- Keep good records of all qualified-expense withdrawals.
- Withdraw funds as available and as needed for any qualified expenses you feel you cannot pay out of your own pocket.
- A debit card may be used to pay qualified medical expenses from the HSA account.
- "Build for retirement." The HSA does not have to be accessed to pay for any medical expenses, and can be left untouched as another retirement savings and/or investment vehicle for the individual. This precludes paying for all eligible HSA expenses with pre-tax dollars.

Again, all of these strategies should be carefully considered in light of their cash flow, tax, and investment options. This information is no substitute for professional consultation.

How are Distributions Taxed?

Distributions from an HSA used exclusively to pay for qualified medical expenses are excludable from gross income and not taxed.