



HEALTH SAVINGS ACCOUNT

EMPLOYEE GUIDE



BENEFITS OF AN HSA

When you're enrolled in a High-Deductible Health Plan (HDHP), save more by taking advantage of our Health Savings Account (HSA). An HSA lets you use tax-free dollars to pay for medical expenses.

HSA's PROVIDE A TRIPLE-TAX ADVANTAGE, MAKING THEM A STRATEGIC TOOL FOR SPENDING, SAVING AND INVESTING.

- + Contributions are tax-free
- + Earnings are tax-free
- + Withdrawals for eligible expenses are tax-free

WHY YOU SHOULD CHOOSE AN HSA

Triple-Tax Savings

HSA's reduce your taxable income. Contributions are made pre-tax, and withdrawals for qualified medical expenses are tax-free if an HSA is offered through your employer's benefits plan.

Investment Potential

The HSA grows with you. The money in the account is yours to invest, and the earnings are tax-free.

Employer Contributions

Along with your payroll contributions, your employer may contribute to your HSA.

Catch-Up Contributions

From age 55 until you enroll in Medicare, you can contribute an additional \$1,000 annually.

Variety

The account covers a wide variety of medical, vision and dental expenses not typically covered by traditional insurance.

Portability

Your HSA stays with you if you change jobs.

Retirement

Once covered by Medicare, you can no longer contribute, but you can continue to withdraw available funds from your HSA.

HOW IT WORKS

DETERMINE ELIGIBILITY

Aside from being enrolled in an HDHP, there are a few other factors that determine if you're eligible for an HSA.

You're ineligible for an HSA if:

- You're claimed as a dependent on someone else's taxes.
- You're covered by another plan that conflicts with the HDHP, such as Medicare, a Medical Flexible Spending Account (FSA) or select Health Reimbursement Arrangements.
- You or your spouse are contributing to a Medical FSA.

ADD AN HSA

When you enroll in an HSA, you set aside money in a tax-free account to pay your out-of-pocket costs. Any unspent money in your HSA remains yours, allowing you to grow your funds over time.

BUILD YOUR SAVINGS

Think of an HSA like an Individual Retirement Account (IRA) for medical expenses. The similarities include:

- Deposits are tax-free and your money grows tax-free.
- You decide how to invest and grow your money.
- You can withdraw funds for qualified medical expenses anytime, tax-free.
- When you reach age 65, you can withdraw your money without penalty and use it for whatever you want.

INVEST

When your balance reaches \$1,000, you can start utilizing your investment options. The HSA is a powerful investment vehicle.

HSA vs. MEDICAL FSA

HSAs and Flexible Spending Accounts (FSAs) are two of the most common types of tax-free benefits plans. You can save big bucks with either, but they have many differences. Choosing whether to enroll in an HSA or a Medical FSA depends largely on what your health plan is.

Only those enrolled in an HDHP are eligible to contribute to an HSA, while those with traditional health plans can sign up for a Medical FSA. However, HSA participants can maximize their tax-free savings by combining their HSA with a Limited FSA, which covers dental and vision expenses.

	HSA	FSA
OWNER	Employee-owned	Employer-owned
ELIGIBILITY	Must be enrolled in a HDHP	Anyone is eligible, although you can't be enrolled in an HSA and a Medical FSA
CARRYOVER	All funds can carry over from year to year	Depending on your employer's plan, you may be eligible to carry over up to \$500/year. Beyond that, any unused funds are forfeited at the end of the plan year
PORTABILITY	The HSA is portable, so the funds in the account stay with you wherever you go	FSAs are employer-owned accounts, so the funds are forfeited if you change jobs
INVESTMENT OPTIONS	You can invest HSA funds	You can't invest FSA funds
SUBSTANTIATION	It's not required, but you'll want to keep all documentation in case you're ever the subject of an IRS audit	The IRS requires substantiation for some FSA expenses to show the eligibility of the expense
AVAILABILITY OF FUNDS	Only the funds that have been contributed are available to cover expenses	All funds for the plan year are available on the first day

GETTING STARTED WITH AN HSA

CONTRIBUTIONS

Contributions to your HSA are tax-free. There are two ways to make them:

- **Pre-tax salary deductions:** If your employer offers this benefit, your payroll deductions are exempt from most state FICA and FUTA taxes as well as federal income tax (check with your employer about your state's taxes).
- **Direct contributions:** You can contribute to your HSA at any time during the year. These annual contributions will be deducted on your tax return (no need to itemize). **Note:** Your employer may also opt to make a contribution to your HSA.

TIP

Use our HSA Calculator at www.DiscoveryBenefits.com/HSAcalculator to determine how much you should set aside in your HSA.

You choose how much to set aside for healthcare expenses. Once you enroll in an HDHP, you can start HSA contributions the first of the following month. You may contribute up to the IRS maximum as long as you open your HSA by December 1 and remain eligible for the following 12 months.

ROLLOVERS & TRANSFERS FROM OTHER ACCOUNTS

Once per plan year, you can roll over an existing balance from a previous HSA into your current HSA. You can also transfer an existing HSA balance without time limitations.

You may also perform a one-time rollover from your IRA to your HSA as long as you remain within your annual contribution limit and remain HSA-eligible for a year after you rollover.



WITH OUR MOBILE APP, YOU CAN:

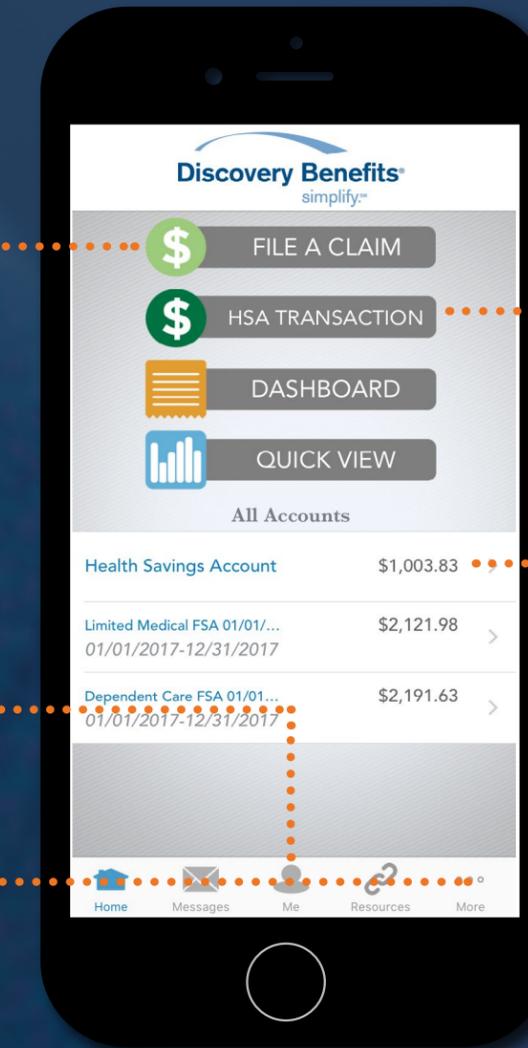
GO MOBILE WITH YOUR HSA

To make managing your HSA as simple as possible, be sure to download the Discovery Benefits mobile app, available on Apple or Android devices.

GET INSTANT NOTIFICATIONS ON THE STATUS OF YOUR CLAIMS AND UPLOAD DOCUMENTATION IN SECONDS USING YOUR PHONE'S CAMERA.

LOG IN WITH A FOUR-DIGIT PIN, REPORT A CARD AS LOST OR STOLEN TO KEEP YOUR ACCOUNT SECURE.

RESET LOGIN CREDENTIALS.



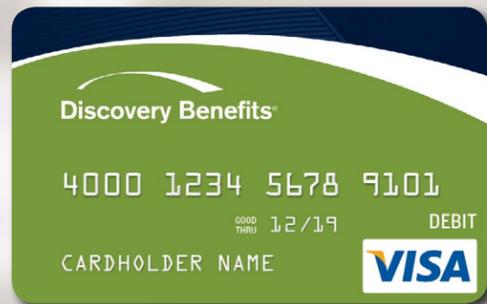
EASILY MOVE FUNDS BETWEEN YOUR HSA AND YOUR BANK ACCOUNT TO COVER ELIGIBLE EXPENSES.

CHECK YOUR BALANCE AND VIEW ACCOUNT ACTIVITY.

DOWNLOAD THE APP FOR FREE ON APPLE AND ANDROID DEVICES



SPENDING



THE BENEFITS DEBIT CARD

With the Discovery Benefits debit card, using your HSA dollars has never been easier. It streamlines the process of managing multiple benefits plans with us. One card — that's all you need for all of your plans. You'll receive your one card when you enroll, and you can request additional cards for your spouse and dependents 18 years or older — for free — through your online portal.

Handy Features

Payments are automatically withdrawn, minimizing out-of-pocket costs. The card's technology ensures that the correct balance is pulled when you swipe it. Funds will only be pulled from your cash account and not from invested funds.

REQUESTING A DISTRIBUTION

In addition to accessing HSA funds with your benefits debit card, you can also pay for eligible expenses out of pocket and request a distribution from your HSA to reimburse yourself.

Because the main goal of an HSA is to save funds — not spend them — paying for expenses out of pocket and saving receipts in case you need a distribution later is a great way to maximize your benefits.

ELIGIBLE EXPENSES

Need a new pair of glasses? How about hearing aids? Due for a trip to the dentist? Those are just a few of the expenses an HSA covers. Other common ones are physical therapy, prescriptions and diagnostic testing.

To view a full, searchable list of eligible expenses, go to www.DiscoveryBenefits.com/eligibleexpenses.

TIP

Unlike with an FSA, purchases made with HSA funds don't require documentation. However, we recommend you save all documentation in case you're ever the subject of an IRS audit.

An easy way to track your expenses is by using Claims Sync, which syncs expense information from your insurance carriers directly into the dashboard in your consumer portal, so you can easily keep track of your expenses.

RESOURCES

 **ELIGIBLE EXPENSE LIST**
www.DiscoveryBenefits.com/eligibleexpenses

 **GETTING STARTED WITH AN HSA VIDEO**
www.DiscoveryBenefits.com/getstartedhsa

SAVING

HSA funds can be used on medical, dental and vision expenses, but the HSA is truly a savings account — not a spending account. Because HSA dollars roll over from year to year, the best way to maximize the benefit is to save your HSA dollars for when you need them most.

MOVING FROM SPENDER TO SAVER



DEVELOP A PLAN

Start with a small goal, such as trying to save enough money to reach your health plan's deductible. From there, set loftier goals for where you want your balance to be next year, two years from now and so on.



MONITOR YOUR BALANCE

Use the free Discovery Benefits mobile app to easily check your balance anywhere, anytime to make sure you're meeting your savings goals.



SAVE HSA DOLLARS WHEN POSSIBLE

Spend only if necessary. Pay for smaller healthcare costs out of pocket if you can afford it, leaving your HSA funds available to you in case a big medical event crops up. You can always draw from your HSA later.



KEEP YOUR EYES ON RETIREMENT

Medicare won't cover all of your post-retirement costs. Saving money in your HSA is a great way to prepare for retirement. That's because, once you've turned 65, HSA funds can be used for any purpose, without penalty.

RESOURCES

 **HSA CALCULATOR**
www.DiscoveryBenefits.com/hsacalculator

 **SMARTER WAY TO USE YOUR HSA VIDEO**
www.DiscoveryBenefits.com/smarterhsa

THE SAVINGS POWER OF AN HSA

Let's look at an example. The Smith family makes \$7,500 per month and has elected this plan year to contribute a combined \$6,900 into HSAs and another \$2,500 into Limited FSAs. Look at their take-home pay:

WITH AN HSA/LIMITED FSA

COMBINED GROSS MONTHLY SALARY	\$7,500
HSA CONTRIBUTION	\$575
LIMITED FSA CONTRIBUTION	\$208
TAXABLE INCOME	\$6,717
TAXES	\$2,350
NET PAY	\$4,367
POST-TAX HSA EXPENSES	\$0
POST-TAX LIMITED FSA EXPENSES	\$0
MONTHLY INCOME	\$4,367

WITHOUT AN HSA/LIMITED FSA

COMBINED GROSS MONTHLY SALARY	\$7,500
HSA CONTRIBUTION	\$0
LIMITED FSA CONTRIBUTION	\$0
TAXABLE INCOME	\$7,500
TAXES	\$2,625
NET PAY	\$4,875
POST-TAX HSA EXPENSES	\$575
POST-TAX LIMITED FSA EXPENSES	\$208
MONTHLY INCOME	\$4,092

WITH AN HSA & A LIMITED FSA,
THE SMITHS SAVE...

\$275/MONTH

\$3,300/YEAR

INVESTING

DISCOVERY BENEFITS MAKES IT EASY FOR HSA PARTICIPANTS TO GROW HSA FUNDS THROUGH INVESTMENTS

After you've reached the low \$1,000 investment threshold, you'll have the option of moving your HSA funds from a cash account (which is the default) to an interest-bearing account in \$100 increments.

After that, funds are automatically transferred between the cash and interest-bearing accounts as cash account fund levels increase or decrease.

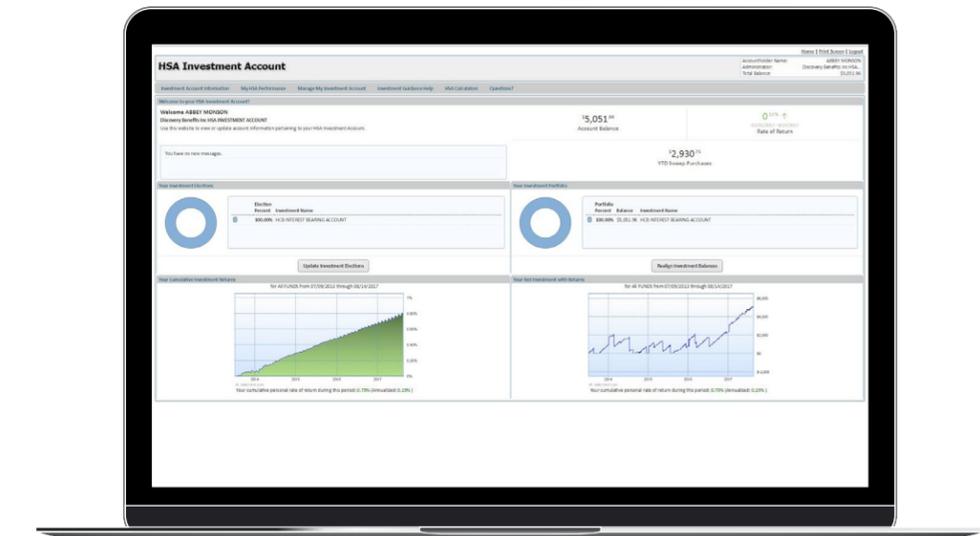
At any time, you may also invest funds from your interest-bearing account into a wide variety of mutual funds. Mutual fund shares may be automatically sold to bring the cash account balance to the minimum threshold of \$1,000 when necessary.

Note: As with any mutual fund, your HSA investments aren't FDIC insured and are made at your own risk. They may lose value and aren't guaranteed by Discovery Benefits or the fund custodian, HealthcareBank.

INVESTMENT TOOLS

Our Investment Platform is integrated directly into your consumer portal to streamline your investing. You'll be able to manage all of your investments in one place. We also offer an Investment Guidance Tool within our consumer portal that helps determine which investments may be right for you. With the guidance tool, you can:

- Determine healthcare expense needs after retirement and create strategies for meeting them.
- Track multiple HSA accounts and healthcare expenses.
- Obtain a personalized risk assessment.
- Access probability simulations to estimate a healthcare balance at retirement.
- Learn more about investment options.
- View recommendations for specific asset class allocations.
- Get help with meeting your investment goals.



RESOURCES

HSA's FOR INVESTORS VIDEO
www.DiscoveryBenefits.com/hsaforinvestors



RESOURCES



ELIGIBLE EXPENSE LIST

www.DiscoveryBenefits.com/eligibleexpenses



HSA VIDEOS

www.DiscoveryBenefits.com/hsaveideos



HSA CALCULATOR

www.DiscoveryBenefits.com/hsacalculator



MOBILE APP VIDEO

www.DiscoveryBenefits.com/mobileappvideo



ONLINE CHAT

www.DiscoveryBenefits.com

Your Privacy: HIPAA (Health Insurance Portability and Accountability Act) provides rights and protections for participants and beneficiaries in group health plans. Due to these regulations, Discovery Benefits can't disclose personal health information to any unauthorized representatives. To authorize an individual or entity to discuss your account details, complete the Authorized Representative Form. Once the form is approved, any authorized representatives can discuss account details with Discovery Benefits until their authorization is removed.

Guide to Managing HSA Investments



**DON'T JUST
SAVE. INVEST.**

Your fund balances will be automatically reallocated, consistent with your investment elections and at the frequency you select. Even as market conditions change, your overall investment mix will stay on target with your diversification strategy. The investment sweeps will automatically replenish your cash account when it goes below your investment threshold. Simply follow the below steps to manage your investments.

Step 1: Access your consumer portal by going to www.DiscoveryBenefits.com and entering your login credentials.

Step 2: From your homepage, select the “Accounts” tab, and in the left-hand column, choose “Investments.”



Investment Account	Fair Market Value
	\$471.05
* Current as of 9/8/2015	

Next, on the investment site:

Step 3: From the Investments screen, click on the [Set up Investment Transfers](#) link. A pop-up screen will appear asking you to establish your investment threshold. Make sure the “Define Investment Sweep Amount” box is checked. Enter an amount equal to or greater than \$1,000 and click “Save.” **Please note:** If you click the “Manage Investments” button, you will be prompted to answer a security question and then directed to the investment site.

Step 4: Use the toolbar on the left side of the screen to navigate through the site. In the “Account Information” section of this toolbar, select “Fund Performance” to view various investments and their return rates. This section will help with the investment decision-making process.

Step 5: In the “Manage My Account” section in the same toolbar, select “Investment Elections” to view your investment preferences, establish investments or reallocate investment funds. If you do make changes, be sure to click the “Submit Election Change” button at the bottom of the page to save your updates. **Please note:** Trades initiated after 1:30 p.m. CST will be processed the next business day. Trades require three business days to process.

Health Savings Account (HSA) FAQ — Participants



**KEEP MORE
OF WHAT YOU
EARN**

What is a Health Savings Account (HSA)?

HSAs are individually owned accounts that work similar to Individual Retirement Accounts and allow you to set aside pre-tax dollars for medical expenses. With an HSA, you can deposit money tax-free and it will grow tax-free until you use it. Interest or dividends accumulate tax-free and payment of qualified medical expenses have no additional tax consequences. You decide how to invest and grow your HSA.

To open an HSA, you must be enrolled in a High-Deductible Health Plan (HDHP). Then, you can use the money in your HSA to pay for the plan's deductible, co-insurance and other non-covered expenses. Once your deductible is met, the HDHP kicks in to pay for major health costs. Even if an HDHP no longer covers you, your account will remain active and you can use the remaining balance for medical expenses — you just won't be able to make contributions once your HDHP coverage ends. The assets in your HSA account always belong to you and funds will remain in your account from year to year unless they're used.

When you set up an HSA, you're required to set it up with a qualified custodian or trustee. Discovery Benefits' custodian is HealthcareBank.

Who can participate in an HSA?

Any individual covered by a High-Deductible Health Plan (HDHP) can participate in an HSA.

Individuals may be excluded from an HSA if they are:

- Covered under a spouse's or a dependent's employer's health plan that is not an HDHP.
- Claimed on someone's taxes.
- Covered by any Medicare benefit.
- Covered under an MSA or HRA, unless the coverage under the MSA or HRA is limited to permitted benefits or specific benefits not provided by the HDHP.

If an HSA is offered through an employer's cafeteria plan, the eligibility requirements of the cafeteria plan apply. Sub S-corporation owners, their spouses and dependents employed by the company may not participate in an HSA. Neither can sole proprietors, 2 percent or more owners in a partnership, limited-liability partnerships or limited-liability corporations.

Who can make contributions to an HSA?

HSAs allow contributions to be made by employers, eligible individuals or both. Employer contributions are subject to non-discrimination rules (also known as comparability rules).

How much can I contribute to my HSA?

You can contribute up to the annual statutory maximum as long as your HSA is established by December 1 of the calendar year. The maximums are as follows:

2017:

Single HDHP Coverage = \$3,400

Family HDHP Coverage = \$6,750

Catch-up Contribution (age 55 by the end of the year) = \$1,000

2018:

Single HDHP Coverage = \$3,450

Family HDHP Coverage = \$6,900

Catch-up Contribution (age 55 by the end of the year) = \$1,000

What is the contribution deadline?

The contribution deadline is April 15 following the year for which the contributions were made.

Health Savings Account (HSA) FAQ — Participants, continued

What are the tax advantages of owning an HSA?

Triple Tax Savings:

- Contributions are tax-free*
 - Employee contributions that are deductible over-the-line (i.e. deductible even by non-itemizers)
 - Employer contributions that are excluded from income and employment taxes
 - Salary reduction contributions made through a Section 125 cafeteria plan
- Earnings are tax-free
- Withdrawals are tax-free when made for eligible medical care expenses

*All three forms of contributions are exempt from federal income taxes. Employer and salary reduction contributions (Section 125 cafeteria plan) are exempt from FICA and FUTA as well. For specific tax advantages, please consult your tax advisor.

When is my HSA effective?

The account will be established when we receive your HSA enrollment and you log in to the Discovery Benefits Consumer Portal and agree to the online HSA agreements. The account then becomes effective on the first of the month following the setup. For example, if your HSA application is sent to Discovery Benefits on January 15 and your account was established on January 17, your HSA would be effective February 1st — the first of the month following the date the account was established. Eligible expenses would be those incurred on or after February 1st. The effective date of your HSA can't be backdated to the date your HDHP was established.

What is the USA PATRIOT Act?

Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an HSA. This means that when you open an HSA with Discovery Benefits, we will ask for your name, street address, date of birth and other information that will allow us to identify you.

This process takes approximately two days, during which time your account will be blocked. Once this process is completed and your identity has been verified, access to your HSA will be unblocked and made available to you. If your identity is not verified (e.g. if you moved recently and your new address is not on file with the appropriate government agency), you may be asked to provide proof of your identity by providing a copy of your utility bill to verify your address or a copy of your Social Security card if the number doesn't match the verifying source's records.

Can an individual have more than one HSA?

An individual may contribute to more than one HSA. However, the total contribution of all HSA contributions can't exceed the annual limit. You and your spouse may both have an HSA if you both have high-deductible health insurance coverage.

Can an individual participate in both an HSA and a Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA)?

If the FSA or HRA through your employer or your spouse's employer is unlimited, you're not eligible for an HSA. If the FSA or HRA is limited to dental, vision and/or preventive care expenses, you can have it with the HSA. Ultimately, it's the responsibility of participants to maintain IRS compliance within their plans.

Can an individual participate in both an HSA and a Dependent Care FSA?

Yes.

What do I need to consider if I'm moving from an FSA to an HSA?

Before you're eligible to use your HSA, your FSA needs to be spent down to a \$0 balance prior to the start of the new plan year. If an FSA balance is carried over into the new plan year, you'll need to wait until the end of the run-out period to be eligible to participate in the HSA.

What expenses are eligible for reimbursement from an HSA?

The Medical FSA and HSA Eligibility List is a summary of common expenses claimed against FSAs and HSAs. Due to frequent updates to the regulations governing FSAs and HSAs, this list does not guarantee reimbursement but is intended to be utilized as a guide for the submission of claims.

How and when can money be taken out of an HSA?

Account holders can make a withdrawal (also known as a distribution) at any time. Distributions received for qualified medical expenses not covered by the High-Deductible Health Plan (HDHP) are distributed tax-free. Distributions can be requested via your online account. Unless individuals are disabled, age 65 or older or die during the year, they must pay income taxes plus an additional 20% on any amount not used for qualified medical expenses. An individual who is disabled or who reaches age 65 can receive non-medical distributions without penalty but must report the distribution as taxable income.

Health Savings Account (HSA) FAQ — Participants, continued

Why do I need to designate beneficiaries?

After the death of an account holder, the tax treatment of an HSA depends on whether a spouse or non-spouse is designated as a beneficiary of the account. If there is no designated death beneficiary, the fair market value of the account will be included in the account holder's final income tax return and estate tax return.

Spouse Beneficiary: If the deceased account holder's designated beneficiary is a spouse, the HSA will be treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses would be tax-free.

Non-spouse Beneficiary: If a non-spouse beneficiary is named as a beneficiary, the HSA will cease to be an HSA as of the date of death. The non-spouse beneficiary would include the balance of the HSA in his or her income for the year of death.

Can I roll over funds from another account?

Rollover contributions to an HSA are permitted as long as the source of the rollover funds is another HSA or Archer MSA. You can't rollover funds from a Medical FSA. A rollover of HSA or Archer MSA funds must be completed within 60 days from the date of constructive receipt to avoid taxation. Only one rollover every 12 months is permitted. When account holders make a rollover contribution, they must certify to the custodian or trustee in writing that they are making a rollover contribution. Once made, the certification is irrevocable.

Are there any fees associated with my HSA account?

Typically, employers will cover fees that are associated with your HSA while you are an active employee. If you leave your current employer but keep your HSA open with Discovery Benefits, there may be maintenance or closure fees assessed to your account.

How do I report HSA activity on my tax return?

The IRS has stated that HSA contributions and distributions are reportable transactions.

Contributions: Employer HSA contributions are reported on the W-2 as non-taxable wages for each employee that receives a contribution. Regardless of whether or not HSA contributions are made by the account holder or the employer, contributions must be reported on the individual tax return of the account holder. Contributions to and distributions from HSAs are reported by the account holder on Form 8889 and attached to Form 1040.

Distributions: Distributions from HSAs, if for qualified medical expenses, will avoid income tax consequences to the recipient. For this reason, the IRS requires the reporting of these distributions.

The account holder can access Form 1099-SA for reporting distributions made during the tax year and Form 5498-SA for reporting contributions made to the HSA during the tax year electronically through their consumer portal. 1099-SAs and 5498-SAs are made available on the portal by January 31 each year. It is the account holder's responsibility to keep records to support distributions and to complete Form 8889 and attach it to Form 1040.

The account holder will be responsible for reporting the contributions and distributions to the IRS and will ultimately be responsible for ensuring that account transactions are within the allowed regulations. If an error is made by Discovery Benefits or its custodian, Discovery Benefits will be responsible for that activity.

Should I keep my receipts for HSA-eligible items?

Yes. Discovery Benefits doesn't require you to submit substantiation for HSA reimbursements, but if the IRS chooses to audit you, the paperwork for your HSA claims may be requested.