



STERLING HSA®

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Health Savings Account Administration Instructions

No Plan Document is needed for Healthcare Savings Accounts (HSAs). Each HSA is owned by the individual account holder. An HSA plan does not require annual renewal.

A. Online Registration

- To access group account information, the plan administrator must first register online for Employer Access to the Sterling HSA website. Steps to register:
 - Go to <https://www.sterlinghsa.com/Accounts/Register/register2>
 - Enter Sterling Group ID number (available on welcome letter, confirmation email, or by calling Sterling customer service at (800) 617-4729)
 - Enter ZIP code and create a username and password. Please write down your username and password.
 - Enter a valid email address and then re-enter that email address.
 - Select a password reminder question and enter the answer to the question selected.
 - You will receive an email from Sterling to the email address given above within a few minutes of registration online. Open the email from Sterling and click on the link back to the secure employer section of our website. You will now have access to all your group account information 24/7 online.

B. Online Enrollment for Employees/New Hires

- Please login to www.sterlinghsa.com as an employer.
- There are three ways to enroll an employee online
 - Web Form Method
 - Excel Spreadsheet Method
 - Employee Enrollment with Enrollment Login
- The Employee Enrollment with Enrollment Login is outlined below:
 - Select Employee Enrollment with Enrollment Login option
 - Enter valid contact email for employer
 - Create generic company enrollment username and password
 - Please write down your generic employee username and password
- Please provide this username and password to all employees who need to enroll online at <https://www.sterlinghsa.com/>
- By logging in with the username and password created, our system will automatically link the employee to your group.
- Once an employee has enrolled online he/she will appear on your list of employees. To fund the new account go “Contributions” and select “Create New Contribution”. Please note an HSA account is not valid until funded.

C. Payroll/Taxes

- If you do not have a Section 125/Premium Only Plan (POP) then all HSA contributions must be done on a post tax basis and reported by the employer as taxable income to the employee. Each employee/HSA accountholder can then take a personal deduction “above the line” off their 1040 Federal tax return (and depending on state of residence, state tax forms) in addition to filing IRS form 8889. See Section J for more information on tax documents.
- Sterling HSA offers HSA compatible Premium Only Plans. Please contact your sales rep for more details.
- HSA contributions via Section 125 plan from both employer and employee should be shown in Box 12, code W of employee W2s
- HSA contributions should not be included in Box 1 of employee’s W2 (federal income), but should be reported in Box 16 (state income) if contributions have been made pre Federal tax and the employee resides in AL, CA, NJ or WI)
- A Section 125 Plan, or HSA compatible POP document is required in order for HSA contributions to be made by an employee pre-tax. In AL, CA, NJ and WI state taxes apply even when an employer has a Premium Only Plan (POP)
- A Section 125 Plan/POP document must allow for the pre-taxing of “all eligible benefits and premiums” - vs. just the pre-taxing of eligible premiums.
- All HSA contributions made by employer and/or employee pre-tax through a Section 125/POP are subject to Section 125 non- discrimination testing.
- HSA contributions are Federal tax free in all states.
- State taxes may apply to HSA contributions and interest earned. Consult your tax advisor for additional information and inform your payroll department so that contributions can be set up in accordance with your state HSA tax rules.

D. 2%+ Owners, Shareholder or Partners in S Corp, Sole Proprietorship, LLP, LLC and Partnerships

- A company may not contribute to the HSA account of individuals owning 2% or more of the company, or pay administrative fees on their behalf and write it off as a business expense (as they could do for contributions to “regular” employees). The 2% or greater owners or Partners themselves can have HSA compatible coverage and establish HSAs. They would need to contribute with their own after-tax dollars. Because the 2% or greater owners or Partners are not receiving an employer contribution, they can choose to fund their HSA in any amount (subject to IRS maximums) at anytime (until April 15th the following year) and are not limited to the employer HSA contribution comparability requirements. At the end of the year, the Owners/Partners can deduct their HSA contributions from their individual 1040 tax return and possibly state tax returns based on state of residence.

E. HSA Deduction/Contribution Process

Employee tells employer what he/she wishes to contribute to his/her HSA and have deducted from payroll. An employee must notify the employer of any/all payroll deductions in writing. A Sterling HSA application or payroll deduction form can be used for this purpose. A payroll deduction form is available on the forms page of <http://www.sterlinghsa.com/forms/>.

- Employer notifies payroll (or payroll vendor eg. Paychex/ADP) of the desired employee HSA deduction amounts and any HSA contributions the employer will be making into employee HSA accounts.

The Sterling list bill can be used for this purpose (Sterling HSA List Bill can be downloaded from the forms page of our website at <http://www.sterlinghsa.com/forms/>. Please note it is very important to make sure Employer and Employee HSA contribution line items are set up correctly with payroll and any employer and employee HSA contribution amounts show up correctly on employee W2 forms. Please see Section C of this Admin Guide for more info on how to set up new HSA payroll line items.

- Payroll (or payroll vendor) makes deductions from employee paychecks (per employer instructions/ list bill) and reflects any/all employer HSA contributions on employee paychecks. Employee HSA contributions are then held in the employers account until submitted to Sterling by the employer. Note, most payroll companies cannot, and will not submit funds directly to any HSA administrator. An employer has up to 30 days to submit employee HSA contributions to Sterling.

Employer sends employee and employee HSA contributions to Sterling along with a list bill/deposit slip. There are two ways to send HSA contributions to Sterling:

- Online. The fastest and easiest option for most employers to fund employee HSA accounts is online. Please note funding online by an employer requires the employer to first register online (See Section A of the HSA Admin Guide for registration instructions).
 - Once registered and logged in you will need to click on the “Add/Update Bank Accounts” link (left hand side)
 - Select “Add New Bank Account”
 - Input bank information for the account you wish to use to fund employee HSA accounts
 - Next, click on the “Employees” link to review your employee roster (left hand side).
 - Once your bank account information has been entered and your employee roster is up to date, you then need to schedule when you would like the contribution to be made. To do this, click on the “Contributions” link (left hand side) and select “Add New Contribution”
 - Schedule the date you would like to make your HSA contribution.
 - Please note the first available day to make a deposit is the next business day. Same day deposits are not available. Please note funds may take an additional 1 to 2 business days to show in employee HSA accounts.
- List Bill & Check. The second option to fund employee HSA accounts is to complete and print out a Sterling List Bill (deposit slip) and send that along with a check (check total to match total on list bill) made out to Sterling HSA to Sterling HSA, 475 14th St. Suite 650, Oakland, CA 94612-1928 Please note that HSA contributions made with a physical check and list bill may take 3-5 business days to show in employee HSA accounts.
- Please note, if the company is an S Corp, Sole Proprietorship, LLP, LLC or Partnership and any of the employees with an HSA are more than a 2%+ owner or shareholders then the company cannot contribute directly into the 2%+ owners HSA accounts. There are special rules for 2%+ owners. Please see http://www.sterlinghsa.com/faq/s_corporations_and_partnerships/

F. Debit Cards

- Sterling MasterCard debit cards are optional and not sent unless requested on the initial application form/during online enrollment.
- Please allow 5-10 working days for delivery of cards.
- If requested, one Sterling HSA debit card will be issued in the accountholder’s name.
- To order additional debit cards for a spouse or dependent(s), an accountholder can login to their account and request cards from the dependent page of the website or complete the debit card request form available on the forms page of the Sterling HSA website at <http://www.sterlinghsa.com/forms/>

and scan/email or fax or mail to Sterling HSA. A minimal service fee may apply for additional debit cards depending on the number of cards ordered and your service plan

G. New Hires and Terminations

- There are four ways to set up an HSA for a new hire:
 - New hire enrolls online. See Section B. Employer must provide funding.
 - Mail in complete, original signed new hire application along with “regular” employer HSA contribution and list bill
 - Mail in original new hire application with a “special” initial deposit check (just for the new hire).
 - Mail in original application and provide Sterling with funding account information. This can be done with a voided check, or if you have funded your existing employee accounts online we will have this information on file. Sterling will then pull funds (as indicated on a list bill) from the designated account.
- HSA Accounts are owned by each accountholder, are fully vested when funds are deposited, and are portable. Please update your employee list to reflect any changes to your workforce.
- COBRA rules to do not apply to Employer contributions to employee HSA's.
- See Appendix for sample termination letter.

H. Disbursements for Qualified Medical Expenses

- Accountholders can use their Sterling HSA credit/debit card.
- Accountholders can reimburse themselves online by transferring funds from their HSA account to their checking or savings account online.
 - Once registered for online account access - click on the “Add/Update Bank Accounts”
 - Select “Add New Bank Account”
 - Once bank account information has been entered select “Disbursements”
 - The system will default to edisbursement
 - Select bank account from which you wish to make a disbursement to your checking or savings account, the amount and date of disbursement. Please note online transfers can take 3-4 business days.
- Accountholders can also submit a disbursement form (available on the forms page of www.sterlinghsa.com) along with receipt(s) and/or an Explanation of Benefits (EOB) from the medical carrier to Sterling.
- Disbursements can be made to the service provider or accountholder. Please note that cutting a check may take 5-10 working days.
- Accountholders can also request that Sterling simply scan and file their receipt/EOB without reimbursement at no charge.

I. Third Party Investments

- Please see http://www.sterlinghsa.com/products/hsa/investment_services/
- A Sterling HSA accountholder has the option of transferring HSA funds to a brokerage account. To do so, the accountholder must download the following two forms from the forms page of our website at <http://www.sterlinghsa.com/forms/>: 1) Transfer of Assets Form, and 2) Sterling as an interested Third Party Form.
- IRS restrictions regarding prohibited transactions apply to third party investments. Please consult with Sterling HSA on the process to set up self-directed investments.

J. Tax Documents

- Sterling will issue all accountholders a year end statement that should be used for tax preparation.
- Sterling sends out two tax documents to all accountholders each year. In January, IRS Form 1099SA and in May, IRS Form 5498SA.
- Form 1099SA is issued to all HSA accountholders who had any disbursements out of their HSA during the prior year (qualified or not). The same 1099SA is also submitted to the IRS. There is nothing the accountholder needs to do with the 1099SA other than file it away. The 1099SA has no impact on the deductibility of HSA contributions for Federal income tax purposes. Form 1099SA becomes important only if the accountholder were to be audited by the IRS. The IRS would have its copy of 1099SA indicating that X dollars were disbursed and the employee would need to provide written documentation/proof that those dollars were used for qualified medical, dental or vision purposes.
- In May of each year Sterling also issues IRS Form 5498SA. The 5498SA is to verify contributions made for the prior year.
- Sterling does not issue 8889 forms. Each HSA accountholder must submit a completed Federal form 8889 with their income tax return, <http://www.irs.gov/pub/irs-pdf/f8889.pdf>

K. Testing and Recapture Rules

- Please be aware that in order to satisfy the IRS rule regarding a “testing period” for tax-qualified HSA contributions, an HSA accountholder must have an HSA qualified plan for 12 consecutive months following the last day of the year in which an HSA contribution has been made. Failure to do so will require the accountholder to pro-rate the contribution by the number of months of HSA eligibility. Any “excess contribution” subjects the accountholder to taxes and penalties. You may contact Sterling to return such excess contribution to you if you wish.

For all account service issues please call Sterling customer service at 800-617-4729 from 8am - 6pm Pacific Monday - Friday, or email customer.service@sterlinghsa.com.

Appendix

Date

Accountholder Name
Address
City, State, ZIP

RE: HSA Account Number ICAXXXXXX

Dear <<Accountholder First Name>>,

Because of the change in your employment and/or health coverage, you may no longer meet HSA contribution eligibility requirements as of <<date of employment termination or health plan coverage change>> unless you elect to continue your HSA compatible health coverage through COBRA or enroll in another HSA compatible health plan. Any HSA funds accrued while employed with <<Company Name>> are yours and can still be used to pay for qualified medical, dental or vision expenses, COBRA premiums, Medicare premiums and long-term care premiums.

Please be aware of the IRS "testing period" for all HSA contributions. The IRS testing period is a requirement where an individual, enrolled in a high deductible health plan (HDHP), has to remain on the HDHP until 12/31 of the following year to not be "over contributed" in their HSA. To satisfy the testing period, if you enrolled in a HDHP/HSA anytime other than January 1, you must remain on the health plan until December 31 of the following year. For example, if you enroll June 1, 2009 into the HDHP, you have to stay on the health plan until December 31, 2010. Failure to satisfy the "testing period" will require you to pro-rate your contribution by the number of months you were eligible for an HSA contribution under your HDHP. Any "excess contribution" subjects you to taxes and penalties. Please contact Sterling to return the excess contribution, if you need to do so.

If you still meet the HSA eligibility criteria listed below, you can continue contributing to your HSA:

- Enrolled in an HSA compatible health plan (through COBRA or otherwise)
- Not covered by non HSA compatible health coverage
- Not on Medicare (A, B or D)
- Not claimed as a tax dependent

Even if you no longer qualify to make HSA contributions, you can still use your HSA funds tax free for qualified medical, dental or vision expenses, COBRA premiums, Medicare premiums, and long-term care premiums as defined by IRS Publication 502 Section 213(d). If you withdraw HSA funds for non-qualified purposes, you'll be subject to a 10% penalty (prior to age 65) and will owe taxes on those funds (if contributions have been made pretax).

Now is a great time to review your HSA account usage and decide if your current maintenance plan meets your needs. Sterling offers an "a la carte" Value Plan for \$2.50 per month or an "all inclusive" Standard Plan for \$8.75 per month. For additional maintenance plan details visit www.sterlinghsa.com. Changing your monthly maintenance plan is easy. Just log into your Sterling HSA account, go to the User Profile page and make the change. All changes will be effective the first of the month following the date of change.

We hope to retain your business and continue working with you to administer your HSA account. However, if you choose to close your Sterling HSA account, remember that there is a \$20 account closure fee.

For assistance during this transition or anytime, you can reach Sterling HSA customer service Monday - Friday from 8 am to 6 pm (Pacific) by calling 800-617-4729 or via email at customer.service@sterlinghsa.com.