

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/psw/Register.php>
- Select “Employer” next to the heading, “Your relationship with Sterling”
- 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. Please write down your username.
- Enter a valid email address and then re-enter that email address.
- Select a password reminder question and the answer to that question
- You will then receive an email from Sterling to the email address given above. Open the email from Sterling and click on the link back to the secure employer section of our website. You will be asked to create a password and you will now have access to all your group account information 24/7 online. Please write down your password.

B. 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 account holder 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.
- HSA contributions 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 employer or employee pre-tax. In AL, CA, NJ and WI state taxes apply.
- 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.

C. Reporting of HSA Account Set Up & Administration Fees

- The IRS requires employers include set up and admin fees paid on behalf of employees along with HSA contributions on each employees' W2, Box 12 code W. Note: If the employer and/or employee has contributed the Federal max HSA limit this may result in the total amount reported on the employees W2 being higher than the HSA contribution limit.
- Employees must file IRS form 8889 with their taxes. Employees should not include any setup and admin fees paid by the employer on their 8889 form.
- Sterling issues a 5498 form to all account holders in May. The amount reported on the 5498 includes all HSA contributions made the prior year (minus any set up and admin fees).

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

- A company may not contribute pre-tax 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 other 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 way they see fit and are not limited to the comparability requirements. At the end of the year, the Owners/Partners would deduct their HSA contributions from their individual 1040 tax return.

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 www.sterlinghsa.com
- 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 www.sterlinghsa.com). Please note, it is very important to make sure Employer and Employee HSA contribution line items are set up correctly with payroll and any employee and employer HSA contribution amounts show up correctly on employee W2 forms. Please see Section B of this Admin Guide for more info on how to set up new HSA payroll line items.

3. 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.

4. Employer sends employee and employer 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, you will need to click on the “Update Bank Account Information” link (lower left)
 - Input bank information for the account you wish to use to fund the employee HSA accounts
 - Next, click on the “List Bill” link to review your current list bill (lower left). If changes need to be made, click on the “edit list bill” link (upper right).

- Once your bank account information has been entered and your list bill is up to date, you then need to schedule when you would like the contribution to be made. To do this, click on the “Manage My Deposits” link (lower left) and schedule the date you would like to make your next HSA contribution.
 - Please note the first available day to make a deposit is the next business day. Same day deposits are not available at this time.
- **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, 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/AboutHSAs/faqs.php?mode=sections&s=8>

F. Debit Cards

- Sterling MasterCard debit cards are optional and not sent unless requested on the initial application form.
- Allow 2 -3 weeks from the time the application is entered into the Sterling HSA system for delivery of cards.
- Two Sterling HSA debit cards are issued per HSA in the account holder’s name. For a spouse to use a debit card in the account holder’s name, the spouse must sign the back of his/her card (vs. account holder). A minimal service fee may apply for additional debit cards depending on your service plan
- To order additional debit cards, simply complete the debit card request form available on the forms page of the Sterling HSA website at www.sterlinghsa.com and fax or mail it to the Sterling offices.

G. New Hires and Terminations

- There are four ways to set up an HSA for a new hire:
 - New hire enrolls online. Employer must provide funding.
 - Mail in original 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 account holder, are fully vested when funds are deposited, and are portable. Please update your monthly List Bill to reflect any changes to your workforce.
- COBRA rules do not apply to Employer contributions to employee HSA's.
- See Appendix for sample termination letter.

H. Disbursements for qualified medical expenses

- Account holders can use their Sterling HSA credit/debit card.
- Account holders 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 "Update My Bank Account Information"
 - Scroll down on the "Update My Bank Account Information" page and click on "Update/Add Bank Account"
 - Once bank account information has been entered select "Manage My Disbursements"
 - Scroll down on the "Manage My Disbursements" page to "Schedule A New Disbursement"
 - Enter date and amount of disbursement. Please note online transfers can take 3-4 business days.
- Account holders can 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.
- Disbursements can be made to the service provider or account holder. Account holders can also request that Sterling simply scan and file their receipt/EOB without reimbursement.

I. Third Party Investments

- A Sterling HSA account holder has the option of transferring HSA funds to a brokerage account. To do so, the account holder must download the following two forms from the forms page of www.sterlinghsa.com: 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 sends out two tax documents to all account holders each year. In January, IRS Form 1099SA and in May, IRS Form 5498SA.
- Form 1099SA is issued to all HSA account holders 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 account holder 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 account holder 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 account holder 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 account holder 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 account holder to pro-rate the contribution by the number of months of HSA eligibility. Any "excess contribution" subjects the account holder 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's toll free customer service line at (800)617-4729 from 8am - 6pm M-F PST or email at customer.service@sterlinghsa.com

Appendix

August 19, 2009

Account Holder Name
Address
City, State, ZIP

RE: HSA Account Number ICAXXXXXX

Dear <<Account Holder First Name>>,

Please be aware you may no longer meet HSA contribution eligibility requirements as of <<**date of health plan coverage termination**>> unless you elect to continue your HSA compatible health coverage through COBRA. This letter is to remind you 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 that in order to satisfy the IRS rule regarding a "testing period" for tax-qualified contributions, you 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 you to pro-rate your contribution by the number of months you were eligible for an HSA contribution. Any "excess contribution" subjects you to taxes and penalties. You may contact Sterling to return such excess contribution to you if you wish.

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 please visit Sterling online at www.sterlinghsa.com. You can change your monthly maintenance plan by calling Sterling toll free at (800) 617-4729. All changes will be effective the first of the month following the change.

If you still meet the three HSA eligibility criteria listed below you may continue to contribute to your HSA:

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

Even if you no longer qualify to make HSA contributions you may 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 choose to withdraw your HSA funds for non qualified purposes you will be subject to a 10% penalty (prior to age 65) and will owe taxes on those funds (if contributions have been made pretax). Should you choose to close your Sterling HSA account a \$20 account closure fee will apply.

For additional assistance please call Sterling HSA toll free at (800) 617-4729 8am-6pm (PST).

Regards,

Rev. 07/06/09