

# Fortis Insurance Company Health Savings Account Disclosure Statement and Adoption Agreement for Individual Medical



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## HSA Disclosure Statement

### Health Savings Account\*

The Fortis Insurance Company Health Savings Account (HSA) is an excellent way to help fund medical expenses. The tax-favored treatment of HSAs was established under the 2003 Medicare legislation. The law authorizes both individuals and employers to use tax-advantaged HSAs in conjunction with high deductible health insurance plans.

### Eligibility\*

To be eligible for an Individual Medical Fortis Insurance Company HSA,

- you must either have an existing Fortis Insurance Company Individual Medical high deductible plan or be applying for one in conjunction with the Fortis Insurance Company HSA; and
- you must not be covered by another health insurance plan (other than a plan providing certain limited types of coverage such as accident and scheduled benefit plans).

### High Deductible Health Insurance Plans

A high deductible health insurance plan is a health plan having an annual deductible of at least \$1,000 for individuals and \$2,000 for families. There are also limits on the amount of out-of-pocket expenses under the health insurance plan. All these limitations are subject to annual cost of living adjustments.

### Tax Deductions\*

Contributions to an HSA are tax deductible up to certain limits. The deduction limit for individual coverage is the amount of the annual deductible under the health insurance plan or \$2,600, whichever is lower. The deduction limit for family coverage is the amount of the annual deductible under the health insurance plan or \$5,150, whichever is lower.

The following deductibles are offered by Fortis Insurance Company to be written in conjunction with HSAs:

<u>Individual Deductible</u>	<u>Maximum Individual Deductible Contribution</u>
\$1,000	\$1,000
\$1,500	\$1,500
\$2,050	\$2,050
\$2,550	\$2,550
\$4,950	\$2,600

<u>Family Deductible</u>	<u>Maximum Family Deductible Contribution</u>
\$2,000	\$2,000
\$3,000	\$3,000
\$4,100	\$4,100
\$5,100	\$5,100
\$9,900	\$5,150

In addition, if you are age 55 or older, you may make an additional deductible contribution of up to \$500 per person to your HSA.

If your high deductible policy begins after January, only a pro rata portion of the maximum may be contributed and deducted. Refer to the Qualified Contributions First Year Maximum Table on page 3.

Self-employed individuals can deduct 100% of their health insurance premiums for the 2004 tax year. Please consult your tax advisor for further information.

\* Fortis Insurance Company and its affiliates are not engaged in rendering tax, investment or legal advice. Federal and state tax laws and regulations are subject to change. If tax, investment or legal advice is required, seek the services of a qualified professional.

## **Withdrawals**

The money in the HSA accumulates on a tax-deferred basis. Withdrawals for qualified medical expenses are not taxable. Withdrawals for reasons other than qualified medical expenses prior to age 65 are taxable and subject to a 10% penalty. Upon death, disability, age 65 or upon Medicare eligibility, funds can be withdrawn for non-medical reasons without penalty, but the distributions will be subject to income taxes.

## **Rollovers**

You are permitted to roll over funds from a Medical Savings Account (MSA) to your HSA on a tax-free basis.

## **Account Holder Responsibilities**

It is up to each individual account holder to make sure that contributions to the HSA do not go beyond the maximum limits. It is also the account holder's responsibility to make sure that his/her withdrawals are for qualified medical expenses to meet tax deductibility requirements. These expenses are defined in Section 213(d) of the Internal Revenue Code. We will allow the account holder to withdraw funds for any reason.

## **Claim Treatment**

At the time of HSA enrollment, the account holder chooses whether he/she will pay for claims with out-of-pocket funds and thus maintain a higher HSA balance or have Fortis Insurance Company reimburse claims automatically to the account holder from the HSA.

- If the account holder chooses to pay for medical expenses with his/her out-of-pocket funds, and expenses accumulate to a point where he/she no longer wants to use out-of-pocket funds, he/she simply submits a written request for HSA fund disbursement.
- The account holder can elect to change from automatic HSA disbursement to out-of-pocket payments and vice versa at any time as long as he/she submits a written request.
- If claims are to be paid from HSA funds, the claims can be submitted by either the account holder or his/her medical providers.

If a claim is submitted by the provider and applied to the Fortis Insurance Company plan deductible, the account holder and provider will be notified. Claims applied to the plan deductible will then be referred for HSA payment. If sufficient HSA funds are available, payment will be made directly to the account holder.

If the account holder requests disbursement from the HSA, disbursements of \$100 or more will be issued on a monthly basis. Checks will be issued quarterly for requests totaling less than \$100 but at least \$10. A claim total of less than \$10 will be addressed at year end.

## **Interest**

The Fortis Insurance Company HSA custodial account earns 3% annual interest (tax deferred) on the entire investment with a minimum account balance of \$750. The actual amount of interest credited for any particular day is based on the total account balance on that day. We reserve the right to alter the interest rate we pay and the minimum balance requirement.

## **Administrative Fees**

We may charge a fee for administering your HSA. For 2004, there is no administration fee, but we reserve the right to impose a fee schedule in the future.

## **Reporting**

We provide a detailed statement with each disbursement. A quarterly statement will provide a summary of account contributions and disbursements for each individual HSA.

We also will send required forms annually to the IRS and the account holder.

## **Internal Limits and Policy Maximums**

As outlined in the policy forms, internal policy limits, such as restrictions on the amounts reimbursable for transplants and the policy lifetime maximums, apply to policies issued in conjunction with HSAs.

### Maximum Out-of-Pocket

For covered expenses, the maximum network out-of-pocket (OOP) offered by Fortis Insurance Company from policy deductibles and coinsurance is \$5,000 for an individual and \$10,000 for a family. HSA deductibles, out-of-pocket expenses and annual contributions will change each year to comply with applicable law.

INDIVIDUAL OUT-OF-POCKET			FAMILY OUT-OF-POCKET		
Deductible	Coinsurance	Total Out-of-Pocket From Deductible & Coinsurance	Deductible	Coinsurance	Total Out-of-Pocket From Deductible & Coinsurance
\$1,000	80/20	\$3,000	\$2,000	80/20	\$ 6,000
\$1,000	50/50	\$3,500	\$2,000	50/50	\$ 7,000
\$1,500	100%	\$1,500	\$3,000	100%	\$ 3,000
\$1,500	80/20	\$3,500	\$3,000	80/20	\$ 7,000
\$1,500	50/50	\$4,000	\$3,000	50/50	\$ 8,000
\$2,050	100%	\$2,050	\$4,100	100%	\$ 4,100
\$2,050	80/20	\$4,050	\$4,100	80/20	\$ 8,100
\$2,050	50/50	\$4,550	\$4,100	50/50	\$ 9,100
\$2,550	100%	\$2,550	\$5,100	100%	\$ 5,100
\$2,550	80/20	\$4,550	\$5,100	80/20	\$ 9,100
\$2,550	50/50	\$5,000	\$5,100	50/50	\$10,000
\$4,950	100%	\$4,950	\$9,900	100%	\$ 9,900

The Qualified Contributions Table indicates the maximum first year HSA contributions based on covered months and deductible. If you had prior qualifying coverage during the year, contributions are allowed for those months.

QUALIFIED CONTRIBUTIONS FIRST YEAR MAXIMUM TABLE						
Month Qualifying Medical Coverage Began						
Individual Deductible	Jan	Feb	Mar	Apr	May	Jun
\$1,000	\$1,000	\$ 916	\$ 833	\$ 750	\$ 666	\$ 583
\$1,500	\$1,500	\$1,375	\$1,250	\$1,125	\$1,000	\$ 875
\$2,050	\$2,050	\$1,879	\$1,708	\$1,537	\$1,366	\$1,195
\$2,550	\$2,550	\$2,337	\$2,125	\$1,912	\$1,700	\$1,487
\$4,950	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600	\$2,600
Individual Deductible	July	Aug	Sept	Oct	Nov	Dec
\$1,000	\$ 500	\$ 416	\$ 333	\$ 250	\$ 166	\$ 83
\$1,500	\$ 750	\$ 625	\$ 500	\$ 375	\$ 250	\$ 125
\$2,050	\$1,025	\$ 854	\$ 683	\$ 512	\$ 341	\$ 170
\$2,550	\$1,275	\$1,062	\$ 850	\$ 637	\$ 425	\$ 212
\$4,950	\$2,475	\$2,062	\$1,650	\$1,237	\$ 825	\$ 412
Family Deductible	Jan	Feb	Mar	Apr	May	Jun
\$2,000	\$2,000	\$1,833	\$1,666	\$1,500	\$1,333	\$1,166
\$3,000	\$3,000	\$2,750	\$2,500	\$2,250	\$2,000	\$1,750
\$4,100	\$4,100	\$3,758	\$3,416	\$3,075	\$2,733	\$2,391
\$5,100	\$5,100	\$4,675	\$4,250	\$3,825	\$3,400	\$2,975
\$9,900	\$5,150	\$5,150	\$5,150	\$5,150	\$5,150	\$5,150
Family Deductible	July	Aug	Sept	Oct	Nov	Dec
\$2,000	\$1,000	\$ 833	\$ 666	\$ 500	\$ 333	\$ 166
\$3,000	\$1,500	\$1,250	\$1,000	\$ 750	\$ 500	\$ 250
\$4,100	\$2,050	\$1,708	\$1,366	\$1,025	\$ 683	\$ 341
\$5,100	\$2,550	\$2,125	\$1,700	\$1,275	\$ 850	\$ 425
\$9,900	\$4,950	\$4,125	\$3,300	\$2,475	\$1,650	\$ 825

Adoption Agreement is on the back of this panel.



**HSA DISBURSEMENT AUTHORIZATION**

5) Please check one of the following:

- I authorize Fortis Insurance Company to automatically pay my medical expenses out of my HSA if the expenses are not eligible to be paid under my high deductible plan.
- I request that Fortis Insurance Company not pay any expenses out of my HSA account unless I submit a written request for disbursement.

**BENEFICIARY DESIGNATION**

6) In case of death, remaining HSA funds should be forwarded to the indicated designee

Name of Beneficiary \_\_\_\_\_

Social Security Number \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

**SIGNATURE**

7) I have read the information in the attached Disclosure Statement and Adoption Agreement. A copy was given to me for my records. I agree to the terms and conditions of the Adoption Agreement, and affirm that I have been given notice as required by the Fair Credit Reporting Act.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Fortis Insurance Company  
**HSA CUSTODIAL ACCOUNT ADOPTION AGREEMENT  
FOR INDIVIDUAL MEDICAL**  
(Under Section 223 of the Internal Revenue Code)

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The Depositor whose name appears on the HSA application is establishing a health savings account under the Internal Revenue Code section 223 to provide for his or her uninsured medical expenses.

Depositor acknowledges receipt of the accompanying Disclosure Statement.

The Depositor and Fortis Insurance Company (the "Custodian") make the following agreement.

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Article I

The Custodian may accept cash contributions on behalf of the Depositor for a tax year of the Depositor. Contributions may not exceed \$2,600 (for single coverage) or \$5,150 (for family coverage) for any year, unless those dollar limits are increased as permitted by law or the terms of the high deductible health plan, or the contribution is a rollover from another HSA or MSA.

Article II

The Depositor's interest in the balance in the custodial account is nonforfeitable.

Article III

This custodial account shall be invested solely in an obligation of the Custodian to pay the Depositor or at the Depositor's direction the amount deposited plus, subject to minimum balance requirements, interest at rates established annually by the Custodian.

Article IV

Distributions will be made at the Depositor's direction. The Depositor acknowledges that withdrawals that are not for qualified medical expenses are taxable and will be subject to penalty taxes in certain circumstances. In the event of death, the account will be distributed to the Depositor's beneficiary. The Custodian may resign at any time upon 60 days' notice to the Depositor and may distribute the then balance to the Depositor in full satisfaction of its obligation hereunder. The Custodian shall resign if the Depositor is no longer covered by a health insurance policy issued by the Custodian.

Article V

The Depositor agrees to provide the Custodian with information necessary for the Custodian to prepare any reports required by law. The Custodian agrees to submit reports to the Internal Revenue Service and the Depositor prescribed by the Internal Revenue Service.

Article VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles that are not consistent with Internal Revenue Code section 223 and the related regulations will be invalid.

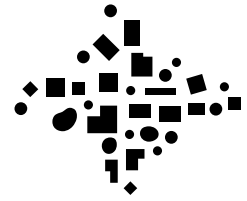
Article VII

This agreement will be amended from time to time to comply with the provisions of the Internal Revenue Code and related regulations. Other amendments may be made with the consent of the Depositor and the Custodian.



Christina Palme-Krizak, Secretary

**This document constitutes notice under the Fair Credit Reporting Act and should be kept with your important papers.**



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# Medical Coverage Offered To Individuals and Families

## Colorado – Business Groups of One Waiver of Coverage Form

The state of Colorado requires that if a Business Group of One is applying for Medical coverage, the carrier must accept or reject the entire family, unless the applicant waives coverage for a family member who has other coverage in effect.

List the names of all your dependents, whether listed on the application or not.

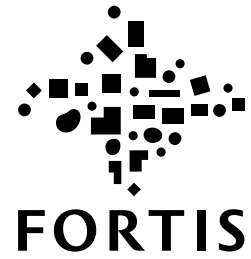
NAME	RELATIONSHIP

I certify that the following family members have other health insurance coverage in effect:

NAME	TYPE OF COVERAGE AND NAME OF CARRIER	EFFECTIVE DATE

After consideration, it is my decision to waive coverage under the Fortis Insurance Company Policy for the above family members.

Signature of Primary Insured \_\_\_\_\_ Date \_\_\_\_\_



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# HSA Guide - Individual Medical

## Questions and Answers on the Health Savings Account (HSA) from Fortis Insurance Company

### General Information

*Legislation authorizing Health Savings Accounts (HSAs) was signed by the President on December 8, 2003. Fortis Health, a national leader in Medical Savings Accounts (MSAs), has fully supported HSAs and was at the forefront of the legislation. HSAs are a significant expansion of the current MSAs. We hope that you and your clients are as excited about the new legislation as we are.*

**Q. *What is a Health Savings Account?***

A. An HSA works like an IRA, except that money is used to pay health care costs. Participants enroll in a relatively inexpensive high deductible insurance plan. Then, a tax-deductible savings account may be opened to cover current and future medical expenses. The money deposited, as well as the earnings, are not taxable. The funds can then be withdrawn to cover qualified medical expenses tax-free. Unused balances roll over from year to year.

**Q. *Who can qualify?***

A. Everyone (not just self-employed or small businesses) with a qualified high deductible insurance plan will be eligible for a tax-deductible HSA.

**Q. *What is the difference between a Medical Savings Account and a Health Savings Account?***

A. HSAs are a significant expansion of the current MSA program. Unlike MSAs, HSAs provide the following:

- Everyone with a qualified high deductible plan is eligible to participate (includes all size employers, the self-employed, individual and families who are not self-employed)
- HSAs can be funded by the employer, employee or combination of both within the same calendar year
- HSAs are permanent and portable
- Larger tax-deferred contributions to custodial accounts
- There are broader deductible ranges

**Q. *What is a high deductible insurance plan?***

A. A high deductible insurance plan is a health plan with a minimum deductible of \$1,000 for self-only coverage and \$2,000 for family coverage. The maximum out-of-pocket expenses for allowed costs must be no more than \$5,000 for self-only coverage and no more than \$10,000 for family.

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- Q. Does the HSA law allow for higher deductibles than MSAs?**  
A. Yes. The new deductibles available May 1, 2004 are: individual; \$1,000, \$1,500, \$2,050, \$2,550 \$4,950 family; \$2,000, \$3,000, \$4,100, \$5,100, \$9,900
- Q. When are HSAs available?**  
A. HSAs are available for plan effective dates of January 1, 2004 and later.
- Q. Are new Adoption Agreements required to enroll the client into an HSA?**  
A. Yes. The new HSA Adoption Agreement is available and is required to establish an HSA.
- Q. Will Fortis Insurance Company continue to administer both the MSA and HSA custodial accounts?**  
A. Yes.
- Q. How do I use software to quote and sell HSAs effective January 1, 2004?**  
A. We are in the process of changing software and product brochure references from MSA to HSA. Until that is accomplished, continue to use the MSA quoting features. Those plan designs are fully compliant with the new HSA law. However, you must use the new HSA Adoption Agreement.
- Q. What will happen to Medical Savings Accounts effective January 1, 2004 for both inforce and new business?**  
A. MSAs sunset (end) December 31, 2003. Existing MSAs may continue under the current rules. Effective January 1, 2004, those who would have qualified for an MSA will now qualify for an HSA.
- Q. Can a Medical Savings Account be rolled into a Health Savings Account?**  
A. Yes. MSAs can be rolled into HSAs on a tax-free basis, but it is not necessary. If, however, your client chooses to participate in the new HSA contribution limits and deductibles at this time, have him/her complete an HSA Adoption Agreement. Those clients choosing not to roll their MSA to an HSA at this time will receive information from us by mid-year 2004 to facilitate a smooth migration from MSA to HSA.
- Q. Can MSA inforce business participate in the new HSA program (i.e. expand the contribution amounts)?**  
A. Yes. Your clients can participate in the new HSA program as long as they complete the new HSA Adoption Agreement. Your MSA clients may retain their current deductible, coinsurance limits and contribution amounts, if they choose.  
(See question above.)
- Q. What are the new maximum contribution limits?**  
A. Annual contribution limits for 2004 are capped at either the high deductible plan deductible or \$2,600 for an individual or \$5,150 for a family – whichever amount is less.
- Q. I enrolled clients in MSAs with 2003 effective dates, but they haven't yet funded their accounts. Do they need to do so before year-end, or can they fund after January 1, 2004?**  
A. Clients have until the tax-filing deadline of the following year to make a contribution for the previous tax year.

**Q. I have MSA applications or Adoption Agreements in house for effective dates after January 1, 2004. What do I need to do?**  
A. We ask that you have your client sign a new HSA Adoption Agreement. We will process the application for the high deductible insurance plan pursuant to our normal guidelines. Once we receive the Adoption Agreement, we will set up the HSA account.

**Q. What if my clients aren't sure they want an HSA? How can I handle that situation?**  
A. If at the time of sale, you believe your client may want an HSA account sometime in the future, but doesn't want to fund it right now, the best practice is to set up the account immediately. The client doesn't need to fund the account right away. In this situation, have the client complete an HSA Adoption Agreement. Just click on the MSA plan type (soon to be HSA). If you send an HSA Adoption Agreement with the One Deductible Plan type, we will automatically note on our system that the client has enrolled in the HSA (this is required for our reporting to IRS), regardless of what plan type is selected. If you send a One Deductible Plan type without an HSA Adoption Agreement, we will note a One Deductible Plan. If in the future your client wants to set up the HSA custodial account, you can have the client complete the HSA Adoption Agreement at that time.

**Q. I recently sold a number of One Deductible plans. Now, pursuant to the HSA legislation, these clients are eligible for an HSA. How do I provide access to an HSA account?**  
A. Have your client complete the new HSA Adoption Agreement. Once we receive this HSA Adoption Agreement, we will set up the account and automatically transfer the plan designation to HSA. No underwriting is required if your client isn't requesting a lower deductible.

**Q. Can I simply use the One Deductible plans for purposes of providing my clients with a qualified high deductible plan?**  
A. For now, no. Use the MSA plan features only. Currently, only the MSA plan feature is set up to denote the type of custodial account (F=Fortis, M=MSAver, O=Other) that is needed to properly administer custodial accounts. As previously noted, we will eventually change our software and reference material to reflect HSAs.

**Q. Is the HSA contribution prorated for the year?**  
A. Yes, if your client's plan isn't effective for the entire calendar year, only the pro-rated portion of the maximum may be contributed and deducted. For example, if your clients plan is effective February 1st, he/she could contribute 11/12 of the maximum contribution limit.

**Q. Are plan designs the same?**

- A.
- a) **Q: Is the family deductible an aggregate?**  
A: Yes.
  - b) **Q: Are any first-dollar benefits allowed?**  
A: First-dollar benefits are allowed for preventative care.
  - c) **Q: Do Rx claims apply toward the plan deductible?**  
A: Yes, as we provide Rx coverage.

- Q: Any word on updated MSAver tri-folds, applications and instruction sheets? Will they be changing their name to HSAver?**
- A: Call MSAver directly at 1-877-662-9276.
- Q: Does the maximum OOP expense of \$5,000 for individuals and \$10,000 for families include the deductible?**
- A: Yes. Total OOP expenses including the deductible can be no greater than \$5,000 for an individual and \$10,000 for a family.
- Q: Can a policyholder continue to deposit into an MSA as long as the insurance plan is a qualified high deductible plan?**
- A: Yes. MSA policyholders have a lifetime right to their MSA custodial account under the rules.
- Q: Will existing qualified plans continue to have deductibles increasing annually according to COLA?**
- A: Yes.
- Q: What sets Fortis Insurance Company HSA plans apart from the competition?**
- A: Our reputation speaks for itself. We are an industry leader in the "medical IRA" business given our leadership position in MSAs. We have one of the only "feeless and seamless" custodial accounts in the country. Our core reputation on claim payments was built over a century. We make it simple to understand and sell and we are ready to assist you today with educational and point of sale materials.
- Q: Is the One Deductible the only HSA compatible plan?**
- A: Yes. Separate Rx deductibles and copays are not compliant with the new HSA law.
- Q: What happens under the HSA law once someone becomes eligible for Medicare?**
- A: Once a person becomes Medicare eligible, he/she can no longer contribute to an HSA. However, he/she can use the accumulated funds to cover qualified medical expenses not covered under Medicare or his/her supplemental plan.
- Q: Am I correct in saying that you can sell HSAs to people who are NOT self employed as well? If so.... that is HUGE!**
- A: Yes, HSAs can be sold to everyone - individuals, families, employees, employers and self-employed, which is considered one of the biggest sales opportunities in years.
- Q: Can minors have a "self-only" HSA?**
- A: According to the Treasury guidance, minors who are claimed as a dependent on another person's tax return are not eligible to have a "self-only" HSA. They can be covered by their parent's or guardian's HSA plan.
- Q: Will all plans with deductibles of \$1,000 & up qualify as an HSA with Fortis Insurance Company?**
- A: Our current "non-One Deductible" plan designs would not qualify for HSA status due primarily to the separate drug deductible.
- Q: Can clients roll their MSA funds into an HSA now, or must they wait for their renewal date?**
- A: Yes, clients can roll their funds into an HSA and may increase their deductible before renewal time.

**Q:** *Does a person buying an HSA need to have “earned” income in order to deduct the contribution? Can they deduct it against “unearned” income i.e. pension, investment, etc.*

A: An individual who has less earned income (even no earned income) than his/her HSA contribution may still take the full above-the-line deduction.

**Q:** *Could a client decide to have his/her HSA custodial account administered by someone other than Fortis Health?*

A: Yes, a client can have a qualified medical plan with Fortis Insurance Company and decide to have his/her HSA account with another administrator, such as MSAver. You can designate this on the agent software by selecting the MSA (HSA on 6-1-04 software, Version 7.2) plan type and the "other" designation in the custodial account box.

**Q:** *Is the integrated (common) deductible part of the definition of high deductible health plan/HSA legislation?*

A: No, a “common” deductible is not required. However, no family member may receive benefits until at least \$2,000 has been incurred. However, Fortis Insurance Company has a common deductible that is compliant with the HSA law.

**Q:** *Since deposits can be made by anyone on behalf of the account beneficiary, who can legally take the tax deduction?*

A: Contributions made by a family member on behalf of an eligible individual to an HSA are deductible by the eligible individual in computing adjusted gross income. Employer contributions to the employee’s HSA are excludable from the employee’s gross income. The employee cannot deduct employer contributions on his/her federal income tax return.

**Q:** *May an employer contribute to an employee’s HSA even if the employer does not provide health insurance for employees?*

A: Although the new HSA law expressly permits an employer to contribute funds to an employee’s HSA on a tax-favored basis, the ERISA implications are not yet clear. There are many questions yet to be answered regarding how ERISA’s reporting, claims procedures, disclosure, fiduciary duty and other requirements apply to employee-controlled HSAs when an employer makes contributions. Because of these uncertainties, we are not recommending that our agents promote employer contributions to employee HSAs when the employee is covered by a qualified health plan that the employer does not sponsor. We anticipate additional guidance from federal agencies in the coming months and will pass along the information as it becomes available.

**Q:** *What are the current interest rates on HSAs?*

A: We currently offer 3% annual interest on the entire investment with a minimum account balance of \$750. Interest rates are periodically adjusted to reflect current market conditions.

- Q:** *How are HSA qualified medical expenses paid? How do I advise my clients to choose between a manual or automated disbursement?*
- A:** On the HSA Adoption Agreement, clients choose whether they prefer a manual or an automated disbursement. As long as there is money in their HSA, the automated disbursement occurs regardless of whether the deductible has been met. If you need to advise clients which method is better (automated or manual), you should consider how much control your client wants to exercise over the distribution of HSA funds. If the customer just wants the disbursement to be distributed without a lot of intervention on the customer's part, then automated disbursement may be the better choice. Otherwise, if the customer wants a tighter control on the funds, then the manual disbursement may be the way to go. Either way, checks will be sent to the client, not the provider.
- Q:** *Are health insurance premiums considered a qualified medical expense?*
- A:** Health insurance premiums are not qualified eligible expenses except for the following scenarios: qualified long-term care insurance, COBRA and health care coverage while receiving unemployment compensation. Funds can also be used to pay for Medicare Part A or B premiums (not Medicare supplement premiums).
- Q:** *Who can deduct premium payments from their taxes?*
- A:** Today, the self-employed can deduct their premiums. Fortis Insurance Company is working with congress to pass legislation that will allow everyone to deduct 100% of their premium payments. Until such legislation is passed, only the self-employed can deduct any portion of their premium payments.
- Q:** *The 1040 tax form does not have a line for the MSA deduction this year. How should clients deduct MSA this year?*
- A:** 2003 MSA contributions need to be reported on tax form 8853. The amount to be deducted is transferred to the 1040 and is included on line 33. The form indicates that the individual should enter "MSA" and the amount on the dotted line next to line 33. In the past there was a separate line on the 1040 to report the deductible amount. More information can be obtained from the IRS Web site ([www.IRS.gov](http://www.IRS.gov)).
- Q:** *Are HSAs insured through the government?*
- A:** MSAs are FDIC - insured, while Fortis Health HSAs are not federally insured.
- Q:** *Where should completed HSA Adoption Agreements be sent?*
- A:** Completed Adoption Agreement should be sent to P.O. Box 624, Milwaukee, WI 53201-0624. Agents can also fax completed HSA Adoption Agreements to 414-299-8493.
- Q:** *What does "first-dollar benefits, except for wellness" mean?*
- A:** A high deductible health plan may still be federally qualified if it does not apply the deductible to preventive care benefits. State mandated wellness benefits are preventive care. If your state does not have a wellness mandate, benefits are paid subject to deductible and coinsurance.
- Q:** *What is the timing of disbursements relative to an incurred medical expense?*
- A:** Federal law places no restriction on when distributions must occur. Fortis Insurance Company offers feeless/seamless administration of the client's account and the client can expect prompt disbursements of qualified medical expenses. Disbursements of \$100 or more are issued on a monthly basis. Checks will be issued quarterly for requests that total less than \$100. A claim total that is less than \$10 will be addressed at year-end.

- Q:** *If a client files an extension on his/her taxes, would he/she have extra time to contribute money into his/her HSA custodial account?*
- A:** The client could contribute until the tax filing deadline. An extension does not affect the amount that a client can contribute to the HSA.
- Q:** *How much can a client contribute to an HSA account if he/she changes the plan deductible mid-year?*
- A:** If a client changes his/her deductible mid-year, his/her contribution will be pro-rated based on the new deductible. For example, if your client changes the deductible from \$2,000 to \$5,000 in June, his/her contribution is 6/12 of \$2,000 (\$1,000) plus 6/12 of \$5,000 (\$2,500), for a total of \$3,500 for the year.
- Q:** *Can clients roll funds from an IRA, HRA or FSA into an HSA?*
- A:** Rollovers from an IRA, HRA or FSA are not permitted.
- Q:** *Can clients roll funds from an HSA into another investment vehicle, such as an IRA, HRA or FSA?*
- A:** No.
- Q:** *If an unmarried insured has single coverage, can HSA funds be used to pay for qualified medical expenses for his/her dependents?*
- A:** Yes.



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## Medical Expense Examples List

Health Savings Accounts and Health Reimbursement Arrangements (small group only) are health care financing programs that enable insureds and employees to be reimbursed for qualified medical care expenses. Qualified expenses are defined under Section 213(d) of the IRS Code.

Medical care expense is defined as amounts paid for the diagnosis, cure, treatment or prevention of disease, and for treatments affecting any part or function of the body. Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness.

**NOTE:** Many HRA plans are designed by employers to reimburse employees only for qualified medical expenses applied to the plan deductible. Consequently, a medical expense could be a qualified expense, as defined by the IRS, but not reimbursable according to the employer's HRA plan design.

Below are examples of both qualified and non-qualified medical expenses. For additional information, refer to IRS Publication 502 titled, "Medical and Dental Expenses", Catalog Number 15002Q. The publication is available at the IRS web site, [www.irs.gov](http://www.irs.gov) or by calling 800-TAX-FORM (800-829-3676).

Examples of Qualified Medical Expenses			Examples of Non-Qualified Medical Expenses
<ul style="list-style-type: none"> <li>■ Acupuncture</li> <li>■ Alcoholism treatment</li> <li>■ Ambulance</li> <li>■ Artificial limbs or prostheses</li> <li>■ Artificial teeth</li> <li>■ Birth control pills (by prescription)</li> <li>■ Braces</li> <li>■ Breast reconstruction surgery</li> <li>■ Car – special hand controls or equipment to accommodate a disabled person</li> <li>■ Chiropractor</li> <li>■ Christian Science practitioner</li> <li>■ Contact lenses and cleaning solutions</li> <li>■ Crutches</li> <li>■ Dental treatment</li> <li>■ Dentures</li> <li>■ Dermatologist</li> <li>■ Diagnostic devices (blood sugar test kit)</li> <li>■ Drug addiction treatment</li> <li>■ Eyeglasses</li> <li>■ Fertility enhancement</li> <li>■ Guide dog or assistance animal</li> </ul>	<ul style="list-style-type: none"> <li>■ Hearing aids and batteries</li> <li>■ Home care</li> <li>■ Home improvements to accommodate a disabled person</li> <li>■ Hospital services</li> <li>■ Lab fees</li> <li>■ Laser eye surgery</li> <li>■ Lead paint removal</li> <li>■ Lodging (away from home for prescribed outpatient care)</li> <li>■ Long-term care premiums (certain limits apply)</li> <li>■ Long-term care services</li> <li>■ Nonprescription medications</li> <li>■ Nursing home</li> <li>■ Nursing services (including board and meals)</li> <li>■ Ophthalmologist</li> <li>■ Optician</li> <li>■ Optometrist</li> <li>■ Organ transplant (including donor's expenses)</li> <li>■ Osteopath</li> </ul>	<ul style="list-style-type: none"> <li>■ Oxygen and oxygen equipment</li> <li>■ Physician services</li> <li>■ Podiatrist</li> <li>■ Prescription medications</li> <li>■ Psychiatric care</li> <li>■ Psychiatrist</li> <li>■ Psychologist</li> <li>■ Special home for the mentally retarded</li> <li>■ Special school costs for the handicapped</li> <li>■ Sterilization</li> <li>■ Surgery</li> <li>■ Stop-smoking programs (physician prescribed)</li> <li>■ Telephone or TV equipment to assist the hearing impaired</li> <li>■ Therapy</li> <li>■ Transportation (primarily for and essential to medical care)</li> <li>■ Vasectomy</li> <li>■ Weight loss programs to treat an existing disease</li> <li>■ Wheelchair</li> <li>■ X-rays</li> </ul>	<ul style="list-style-type: none"> <li>■ Athletic or health club membership</li> <li>■ Automobile insurance premium allocable to medical coverage</li> <li>■ Babysitting and childcare for a healthy baby</li> <li>■ Bottled water</li> <li>■ Cosmetic surgery and procedures (unless for deformity)</li> <li>■ Cosmetics, hygiene products and similar items</li> <li>■ Diaper service</li> <li>■ Domestic help</li> <li>■ Electrolysis or hair removal</li> <li>■ Funeral, cremation or burial expenses</li> <li>■ Hair transplant</li> <li>■ Illegal operations and treatments</li> <li>■ Maternity clothes</li> <li>■ Nutritional supplements</li> <li>■ Premiums for life insurance, income protection, disability, loss of limbs, sight or similar benefits</li> </ul>

This list contains examples and is not intended to be all inclusive. Fortis Health and its affiliates are not engaged in rendering tax or legal advice. If tax or legal advice is needed, consult your tax or legal advisor. Fortis Health markets insurance products underwritten and issued by Fortis Insurance Company, Fortis Benefits Insurance Company and John Alden Life Insurance Company.