Things You Should Know When Using Your Fidelity HSA®

About HSAs

A Health Savings Account (HSA) is a tax-advantaged account that can be used to pay for current and future qualified medical expenses for you, your spouse, and your dependents. It was created under the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*. With an HSA, you can make contributions and take distributions from your account on a federally tax-free basis. And, because contributions may be invested, they have the potential to grow over time also federally tax-free. (Most states also allow tax-free contributions, distributions and earnings, but please consult a tax advisor for specifics.) You can use funds in your account to pay for or to reimburse yourself for qualified medical expenses for you, your spouse, and your eligible dependents.

About HDHPs

A High-Deductible Health Plan (HDHP) is a specific type of health plan with a higher deductible than traditional health plans and with lower premiums. In order to open and contribute to an HSA, you must be enrolled in the HDHP and meet other eligibility requirements, including:

- You cannot be covered by any other health plan that is not an HDHP
- You may not currently be enrolled in Medicare
- You cannot be claimed as a dependent on another person's tax return

With an HDHP, most eligible medical expenses, even prescription drugs, are subject to the annual deductible. You are responsible to pay expenses up to the HDHP's annual deductible. For many HDHPs, preventive care is not subject to the deductible, but may require small co-pay amounts. Once you've reached the deductible, your HDHP will cover all or a percentage of your eligible expenses (as defined by the plan). For more information on the provisions of your HDHP, refer to your HDHP enrollment materials.

How an HSA Works

You can use your HSA funds to pay for current and future out-of-pocket qualified medical expenses, including expenses related to meeting your health plan's annual deductible. Because the contributions and distributions used to pay for these expenses are federally tax-free, you have use of the money you would have otherwise paid out in taxes. Your contributions to an HSA may be invested and therefore have the potential to grow federally tax-free. And, unlike flexible spending accounts (FSAs), HSAs are not subject to any "use it or lose it" rules; any unused funds remain in your account from year to year. This flexibility allows you the opportunity to *save for future* health care expenses—even in retirement—in your HSA. So you can choose to pay for current health care expenses with money outside of your HSA, and save your HSA funds for health care expenses in retirement—when your medical costs may be higher than they are today. Finally, your Fidelity HSA is yours and is completely portable; meaning that if you change health plans, leave your employer, or retire, the account—and fund—remains yours to use.

Contributions to Your Fidelity HSA

You, your employer, and other third-parties may contribute to your HSA. Together, contributions to your account may not exceed your maximum annual contribution. Your maximum contribution limit depends on whether you have individual or family HDHP coverage, whether you're age 55 or older and whether you're enrolled in an HDHP for a full year. The statutory maximum annual contribution amounts are set by the U.S. Treasury Department and indexed annually. If you are 55 years of age or older, you are also eligible to make additional "catch-up" contributions to your HSA. In addition, if you enroll in an HDHP mid-year, you may still contribute to the statutory maximum, provided you are enrolled in the HDHP as of the last month of the taxable year and remain enrolled for the 12 months following. If you enroll in an HDHP at the beginning of the year, but terminate your coverage under the HDHP sometime during that year, your maximum annual contribution limit is pro-rated. See the U.S. Treasury Web site for more information on contribution and catch-up limits: **www.ustreas.gov/offices/public-affairs/hsa.**

Remember that your contribution total is tallied from contributions from all sources including payroll deferrals, direct deposits by you, employer contributions and any other third party contributions. To ensure that you don't exceed your contribution limit, you should:

1. Calculate your maximum annual contribution limit.
2. Determine if and how much your employer will contribute to your account.
3. Determine if you will have any other contributions to your account.
4. Decide on your monthly pre-tax contributions based on the other contributions.

Remember that your maximum annual contribution limit applies to each calendar year, and contributions may be made up to April 15 of the following year. Contributions to your Fidelity HSA can also be made with after-tax money via check or EFT.

Excess Contributions

Excess contributions include contributions from any source —employee, employer and other third party—that are in excess of your maximum annual contribution limit. Fidelity prevents contributions above the statutory maximum for family HDHP coverage, but it's incumbent on you to ensure that contributions do not exceed your annual contribution limit. For instance, if you become ineligible for either individual or family HDHP coverage during the year, your annual limit is pro-rated. If you have front-loaded your annual contributions, you may be in danger of having contributions exceed your limit.

If you do contribute more to your account than your contribution limit, then you, as the account holder, are responsible for withdrawing the excess contributions and any earnings on those contributions. You have two options on how to do this:

1. Go to Fidelity.com and click Customer Service, Find a Form. In the alphabetical list, go to HSA forms, and download the HSA Return of Excess Form.

2. Call Fidelity and indicate that you need to withdraw funds from your Fidelity HSA due to an excess contribution, and a Fidelity representative will advise you on the correct form and procedure.

If you do not withdraw the excess contributions (and any earnings on those contributions) from your account, the amount in excess will be included in your gross income and subject to a 6% excise tax. You will need to withdraw these funds by your tax filing deadline for that tax year. It is important to consult with a tax advisor in handling excess contributions.

HSA Distributions

Once you establish an HSA and begin making contributions, you can start using your account. You may use your HSA to pay for out-of-pocket "qualified medical expenses," including expenses you incur before reaching the HDHP's annual deductible. Defined under the Internal Revenue Service Code (IRC), "qualified medical expenses" (QMEs) generally include costs for most medical care and services, dental and vision care, prescription drugs, and some over-the-counter drugs, that are not paid by your health plan. Medical insurance premiums are generally not considered qualified medical expenses; but premiums paid for COBRA continuation coverage, qualified long-term care insurance (subject to limitations), and Medicare premiums do qualify.

When you use your HSA funds to pay for qualified medical expenses, distributions from your account are federally tax-free (and also tax-free in most states). You do not need to submit receipts or claim forms to take distributions from your account, but you are responsible for determining that the expenses are qualified medical expenses and for complying with all IRS tax reporting requirements. As such, it is important that you keep records to show your distributions were exclusively to pay for or reimburse qualified medical expenses. You do not need to send these records with your tax return, but can keep them with your tax records.

There are four primary methods for taking distributions from your HSA:

1. Debit card—You and your dependents may utilize a debit card to pay for qualified medical expenses directly from your HSA.

2. Checkbook—You can request a checkbook to pay qualified medical expenses directly, or to reimburse yourself for qualified medical expenses you paid from a taxable account.

3. Electronic Funds Transfer (EFT)—You can establish a direct connection between your Fidelity HSA and your bank account to reimburse yourself for qualified medical expenses you paid from a taxable account.

4. Request distribution check—You may call Fidelity directly to request a distribution check be mailed to you directly.

You can find more information about all of the above methods of distribution at Fidelity.com. Click Customer Service, Find a Form, and then go to "H" in the alphabetical list to find all HSA request forms.

Whatever method of distribution you use, with a few important exceptions, you may not want to pay your health care expenses at the time of service. All claims should be submitted to your HDHP for payment. After your claim is processed you will receive an Explanation of Benefits from the HDHP indicating the amount, if any, you owe the health care provider. However, paying at point of service might make sense for the following exceptions:

- Pharmacy prescriptions
- Preventive care visits if a copayment is required
- Healthcare services that will not go through the claim submission process

Please note: Distributions you take that are not used to pay for or reimburse qualified medical expenses will be included in your taxable gross income and will be subject to an additional 10% tax penalty.

Mistaken Distributions

If you take a distribution from your Fidelity HSA for an expense that is not a qualified medical expense, you may "repay" your account. (This includes distributions intended for a qualified medical expense and later returned to you as overpayment by a health care provider.) You have three options for handling mistaken distributions:

1. Pay for other qualified medical expenses. You may be able to use a mistaken distribution to pay for another qualified medical expense not already paid or reimbursed for. However, you should consult your tax advisor for tax advice on specific examples. Please keep in mind it is your responsibility to keep all appropriate records to support any decision you make with respect to a distribution or payment of a qualified medical expense from your HSA.

2. Credit your Fidelity HSA Debit Card. If the original distribution was made on your Fidelity HSA debit card, ask your health care provider to process the reimbursement as a credit on your card. The credit must be applied in the same calendar year as the distribution. These credits will reduce your total HSA distributions for the year.

3. Submit a rollover contribution to Fidelity. If you are unable to use the distribution for other qualified medical expenses or to have a credit applied to your Fidelity HSA debit card, you may send a check and deposit slip to Fidelity indicating the amount is a mistaken distribution to be treated as a 60-day rollover. Since this type of repayment is treated as a rollover contribution, it must be made within 60 days of the date you receive the distribution (i.e. the date that funds were withdrawn from your Fidelity HSA, not the date you paid the health care provider). To order HSA deposit slips, login to your account on Fidelity.com, go to Accounts and Trade and click Update Accounts/Features. Under Account Features, click Checkwriting and Deposit Slips and order deposit slips on your HSA. When filling out the deposit slip, check the "60-day rollover" option and indicate rollover on your check to ensure proper handling. If the distribution is repaid under these circumstances, it will be treated as a rollover contribution, it will not be included in your income and will not be subject to the 10% penalty. In addition, the repayment will not be subject to the 6% excise tax on excess contributions. Please note, however, that a rollover will not be available to you if you already have made a rollover to your account in the previous 12 months. And you will not be permitted to make another rollover to your account during the next 12-month period. You may, however, combine more than one check to your rollover provided the dates of distribution were within 60 days.

IMPORTANT NOTE: The repayment of a mistaken distribution should not be put into your account as a normal contribution, so it won't be included as part of your total contributions. If it is put into your account as a contribution, you will need to contact Fidelity and explain that you need to re-classify this as a rollover contribution.

REMEMBER: Your company does not have access to view your account, so please contact Fidelity if you have any questions about your Fidelity HSA. Select Health Savings Account from the voice menu selections.