

HSA Administrative Guide For Small Group Employers

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Together with Anthem, ACS and Mellon Trust of New England are uniquely positioned to deliver an employer-friendly, and accountholder-friendly HSA experience. ACS designs, builds, operates and communicates all types of employee benefits plans. Health Savings Accounts is one of their specialties. Mellon Trust of New England, a leading asset servicing firm, is the custodian for the accountholders providing recordkeeping and transaction processing.

Process Summary:

- Enrollment information for the Lumenos health plan and the HSA is sent directly to Anthem.
- Contributions through payroll or employee are sent directly to Mellon as described below.

1.0 Anthem's Lumenos HSA Enrollment Guidelines

- When setting up an employer group, simply submit your completed Employer Application form, indicating that your group is requesting Anthem to facilitate the automatic establishment of HSAs for your employees.
- Along with your Employer Application form, you'll need to include a signed HSA Agreement.
- Your employees' Enrollment Application forms, which needs to include their Social Security Numbers, should also be submitted to the health plan along with your employer forms. This is all your employees need to submit; no additional HSA applications are required.
- Because it takes time to set up the process to fund HSAs for your employees, we recommend that you begin your HSA funding set-up process 4-5 weeks prior to your group's first targeted funding date to help ensure that pre-tax HSA contributions to your employees' accounts will begin on a timely basis and can be aligned with your own payroll schedule. If the funding set-up process is not initiated within this 4-5 week timeframe, deposits to your employees' accounts may be delayed.

NOTE: Even if you begin funding after your plan effective date, you and your employees may still contribute the full allowed amount.

1.1 Submitting Enrollment Forms to Anthem

Your Employer Application form, HSA Agreement, and employee Enrollment Application forms should be submitted directly to Anthem. Once Anthem has processed the applications, your group set-up and employee HSA enrollment information will be automatically sent to our HSA Custodian partner, ACS/Mellon. There is no additional enrollment paperwork for you to send to ACS/Mellon.

2.0 HSA Establishment Process

- The HSA Plan enrollment process begins when employer and employee enrollment data is loaded at Anthem. Next, a group set-up file is generated and automatically sent to ACS/Mellon, resulting in your group's set-up on ACS/Mellon's group enrollment system. Once the group set-up is complete (usually about 3-5 business days), your group's employee enrollment file is then automatically sent to ACS/Mellon.
- If an employee's Enrollment Application form is missing information that is required to set up an HSA (e.g. SSN), his/her record will be identified prior to it being sent to ACS/Mellon and an Anthem Representative will contact the employee to complete the information.
- ACS/Mellon establishes the account and Anthem sends consumers their HSA Welcome Kits, which contain all the documents an employee needs to activate and access his/her HSA.

Customer Identification Program:

- Once the member activates the account, ACS/Mellon performs database review of member enrollment data to fulfill its obligations to establish and maintain a Customer Identification Program (CIP) pursuant to the USA Patriot Act, the Bank Secrecy Act, the Money Laundering Control Act and all other applicable anti-money laundering laws.
- A certain percentage of enrollments will be identified for further identity verification during this screening.
- Identified accountholders will receive a request for additional information directly from Mellon. Information requested typically includes items such as a driver's license, copy of utility bill or passport.
- Failure to respond to requests for additional information will result in member's account closure and return of any funds to the member, which may have posted to the account.

3.0 Account Effective Dates

IRS guidelines govern the effective dates of HSAs. They are as follows:

- If the consumer is enrolled in an HSA-compatible health plan effective the 1st of a month, the HSA can be established for this consumer on or after the 1st of that same month.
- If the consumer is enrolled in an HSA-compatible health plan effective on any date other than the 1st of a month, the HSA can be established on or after the 1st of the following month.

4.0 Activating a Lumenos HSA with ACS/Mellon

HSA Welcome Kits:

- Once your group's enrollment files are received and processed by Anthem, your employees' HSA Welcome Kits will be sent directly by Anthem to the address provided on the Employee Application form.
- The kit will include all of the banking documentation required by ACS/Mellon as well as instructions for how to activate/open the HSA. Welcome Kit materials include:
 - Welcome Letter
 - Signature Card & Beneficiary Designation
 - Combined Deposit Agreement and Disclosure Documents
 - Privacy Statement
 - Fee Schedule
- Consumers should receive their Welcome Kits approximately 10-15 business days after the complete group and employee enrollment information is received by Anthem. If consumers have not received their kits by this time, consumers may contact an Anthem Customer Service Advocate to request a replacement kit. The consumer's address should be verified against that in the Anthem enrollment system so as to avoid any further delay of their HSA materials.

Signature Process:

When the consumer enrollment is received by ACS/Mellon, an account is established, but not activated – or opened. In order to activate and open an account, the account holder must complete a signature process. Once the employee has received his/her HSA Welcome Kit, there are two different ways to complete the signature process:

- 1) **Electronic Signature:** After logging in to their Anthem consumer website, HSA account holders may complete the Electronic Signature process in just a few minutes. Once this is complete, the HSA is considered open; contributions may now be deposited and a debit card will be mailed by ACS/Mellon.
 - 2) **Paper Signature Card:** Included in the HSA Welcome Kit is a pre-printed, barcoded paper Signature Card. After the account holder has completed his/her personalized signature card and it is processed by ACS/Mellon, the account is considered open; contributions may now be made and both a debit card and checkbook will be mailed by ACS/Mellon.
- In order to receive a checkbook, the Paper Signature Card must be received by ACS/Mellon; checkbooks will not be distributed without this signature on file. This file also allows the consumer to designate a beneficiary.

5.0 Debit Cards

A debit card is sent to the consumer once the HSA account is opened (by electronic or paper signature). It takes approximately 7-10 business days to receive a debit card. The debit card requires a PIN code be used with each swipe. The account holder's PIN code will be mailed separately from the debit card, approximately one day after the card is sent.

Additional debit cards may be issued to a spouse or other family members for \$5.00 each. If the consumer would like an additional card, he/she should call an Anthem Customer Service Advocate, who will facilitate the order.

NOTE: Although a spouse may have a debit card in his/her name, they are not entitled to receive any account information from Anthem or ACS/Mellon.

- When a debit card is cancelled, due to being lost or stolen or at the request of the account holder, the card is put on hold. Once the new debit card is received and activated, the hold on the card is lifted. If there are two debit cards on the account, account funds can still be accessed using the active card.

6.0 HSA Contributions

Contributions to an HSA may be made by the employer or the employee. The process is different depending on whether the employer or the employee is making the contribution.

The employee may make a direct post-tax contribution to Mellon. See section 6.3 below.

If the employee is contributing to the HSA through payroll deductions or the employer is contributing money to the HSA, see section 6.1 below. For information on Comparability Rules related to employer contributions, see section 12.0.

6.1 Employer HSA Funding Process

Payroll-based contributions – both employer and employee – can be made through ACS/Mellon to effect deposits into a consumer's HSA. This is accomplished through a lump sum transfer of funds via check, ACH, or wire accompanied by allocation instructions entered and submitted through the preferred funding method for smaller employers: ACS/Mellon's POW! (Payroll on the Web) application. With POW! employer groups will be able to see which accounts are open prior to making contributions.

You can find detailed file and transmission instructions in the ACS/Mellon Employer Funding Guide, located on the Anthem broker and employer website or your Anthem sales representative can provide one to you. The ACS/Mellon Employer Support Team will provide a POW! user guide, log-on ID and password to the group contact person provided in the Anthem Employer Application. If POW! is not a viable option for your group, speak to the ACS/Mellon Employer Support Team about the individual ACH method as an alternative. (Note: This requires the employer to gather individual HSA account numbers from employees and your bank may assess fees for each ACH transaction.)

In order to facilitate HSA funding by a certain date, groups are strongly encouraged to begin the funding set-up process soon after they decide to offer a Lumenos HSA

Set-up Time: Approximately 2 Weeks

EMPLOYERS OR EMPLOYEES SHOULD NOT SEND HSA CONTRIBUTION FUNDS TO ANTHEM! Any HSA allocation instructions or funds received at Anthem will be returned.

6.2 Funding Reconciliation Process

In the event that a lump sum ACH, wire transfer or check deposit is under funded for the group (i.e., the total funds received are less than the contribution total), no consumer accounts will be funded, the deposit is rejected in its entirety and ACS/Mellon contacts the depositor (employer) to resolve.

In the event that a group's account is over funded, all accounts will receive deposits as indicated in the allocation instructions, and the overage will remain in the employer's sub account at ACS/Mellon pending resolution with the group. The group may choose to apply the overage to future allocations.

6.3 Employee HSA Contribution Options

Employees making contributions to an HSA have several options with their Lumenos HSA. Employees should use one of the following methods when making a deposit:

- Pre-tax payroll deduction (through their employer, as described in Section 6.1)
- All consumers can make post-tax deposits via check with a deposit slip. Consumers will receive a deposit slip with their HSA Welcome Kit, and will receive additional deposit slips with their HSA account checkbook, which is sent by ACS/Mellon once the paper signature card is received. The consumer may claim this contribution on their annual tax filing to receive the tax advantage.

HSA DEPOSITS / LIVE CHECKS SHOULD NOT BE SENT TO ANTHEM; ONLY ACS/MELLON WILL ACCEPT FUNDS FOR THE EMPLOYEE'S HSA. Any HSA allocations or funds received by Anthem will be returned.

6.4 Changing HSA Contributions

Contributions can be changed at any time. If the employer is facilitating payroll-based contributions, changes are at the discretion of the employer (subject to legal requirements). At any time, an HSA account holder may contribute post-tax funds directly to their account using deposit slips.

Employees who want to change the amount they are contributing via payroll deduction must contact their employer or benefit administrator.

6.5 Excess HSA Contributions

HSA contribution limits are set annually by the federal government. To prevent excess contributions:

- ACS/Mellon monitors the overall legislative maximum (the annual statutory family maximum plus one catch-up contribution for a given calendar year). ACS/Mellon does not track the individual's annual maximum limit based on the individual's circumstances.
- Individuals are responsible for monitoring their own limits if they are less than the statutory maximum. Employers are responsible for monitoring any contributions through payroll to ensure the employer does not knowingly or intentionally over fund contributions through payroll to an employee's HSA.
- Excess contributions and the interest earned on them are subject to income tax and an excise tax of 6% unless corrected before the last day prescribed by law (including extensions) for filing the account beneficiary's federal income tax return for the taxable year.

If an individual reaches the Internal Revenue Service (IRS) statutory overall maximum, any excess deposits will be returned by ACS/Mellon to the account holder. If an individual exceeds the IRS maximum based on their annual eligible amount, they may submit a "Request for Return of Excess HSA Contribution" form to ACS/Mellon, who will process the return of the excess contributions. The consumer will need to report these over contributions as income if the original contribution was on a pre-tax basis.

NOTE: Incentive credits earned by the consumer and deposited into an HSA account by an employer count toward the individual's annual contribution limit.

7.0 HSA Account Fees

- Setup and monthly account maintenance fees are deducted directly from the employee's account, once the account is activated.

HSA Administrative Fees

Transaction Type	Administrative Fee
HSA setup fee	\$15.00, one time
Monthly account management fee	\$2.95 per month
Debit card transactions at merchant locations	No charge, without limitation
Initial Checkbook (40 checks)	No charge
ATM transactions (includes cash withdrawals, balance inquiries and denials).....	\$1.00 per transaction
Replace lost or stolen debit card.....	\$5 per occurrence
Monthly Paper Account Statement Mailed.....	No charge
Checks:	
Check writing	No charge
Stop check service.....	\$25 occurrence
Non-sufficient funds	\$25 per occurrence
Duplicate check	\$5 per copy
Additional checkbooks	\$10
Account closing fees	No charge if closed via check. If closed via transfer of funds to another custodian, a \$25 charge will apply.

- Fees shown above are accurate as of July 1, 2007. Fees are subject to change from year to year, and prior notice will be provided to both the employer and account holder in advance of any change.

8.0 Account Changes

Terminations

The Employer group must notify Anthem in the case of an employee's qualifying event resulting in a change in status, such as changing jobs or becoming ineligible to contribute. Anthem will then notify ACS/Mellon effectively terminating the relationship of the account with Anthem. The employer must also cease sending any contributions (in payroll) for the consumer to Mellon.

- If an employee leaves their Anthem HSA plan, ACS/Mellon will generate a new, non-Anthem branded debit card.

NOTE: Once money is deposited into an employee's account, it belongs to the employee and Mellon cannot return it to the employer. This is true in all cases, including when an employer terminates an employee with a retroactive termination date.

Address Changes

For active Lumenos HSA consumers, the Employer group must notify Anthem in the case of an account holder's change in address. Anthem will notify ACS/Mellon directly. ACS/Mellon will not change or update an account holder's address without notification from Anthem. Consumers who are no longer Anthem members, but who maintain their Mellon HSA, may update their account information directly through ACS/Mellon.

8.1 Request to Rollover HSA Funds

HSA

If a consumer wishes to move funds from an existing Health Savings Account or Medical Savings Account at another financial institution to their Mellon HSA, there are two ways to do this.

- Roll over the funds by writing a check, and indicating the type of contribution on the deposit ticket, or;
- Request a Trustee-to-Trustee Transfer from the previous custodian.

IRA

A one-time IRA transfer to an HSA is permitted on an individual basis as a result of the Tax Reform and Health Care Act of 2006. Individuals seeking to make such a transfer should contact their current custodian to have them issue a distribution. The distribution should be sent directly to Mellon for deposit into the individual account.

Differences between a Rollover and a Trustee-to-Trustee Transfer into a Mellon HSA

	Rollover	Trustee-to-Trustee Transfer
Permitted Frequency	One rollover per year per HSA	Unlimited
Tax Reporting	ACS/Mellon will report the rollover on IRS form 5498-SA. Your current trustee is not required to report the rollover	None required
Fees	Mellon does not charge a fee. Your current trustee may charge a fee.	Mellon does not charge a fee. Your current trustee may charge a fee.

Rollover of funds into the Mellon HSA

Consumers can send a check from their former custodian's HSA checkbook payable to Mellon Trust of New England, NA along with a Mellon HSA deposit slip. Deposit slips are included in the HSA Welcome Kit and in the Mellon HSA checkbook. Consumers need to make sure to check the box on the deposit slip labeled **(Check here if this deposit is a rollover.)** The check and deposit slip can be mailed or sent using overnight delivery to the addresses below.

Mail
Mellon HSA Solution
P.O. Box 4038
Woburn, MA 01888-4038

Courier/Overnight
Mellon HSA Solution
135 Santilli Highway 026-0019
Everett, MA 02149

Electronic Trustee-to-Trustee Transfers into the Mellon HSA

Consumers should complete Mellon's Trustee-to-Trustee Transfer Form and provide it to the current (or outgoing) HSA trustee. The current trustee can send funds to Mellon via check or ACH (Automated Clearing House) Direct Deposit.

FSA/HRA

The Tax Reform and Health Care Act of 2006 provided for FSA/HRA rollovers into HSA accounts. *FSA rollovers into an HSA are allowable only for FSA plans with a grace period – employers must confirm the FSA has a grace period or amend the plan to include a grace period.*

The following steps need to be completed for employers seeking to roll over FSA/HRA funds to employee HSA accounts.

- Amend plan document to provide for the rollover distribution
- Elicit employee election to complete rollover
- Obtain an FSA/HRA rollover spreadsheet from ACS/Mellon Employer Support Team
- Submit the FSA/HRA rollover spreadsheet to ACS/Mellon as instructed
- Remit a wire or ACH transfer of the total amount to be transferred to ACS/Mellon

FSA/HRA rollovers must be completed within the prescribed timeframe as outlined by the IRS. *Employers should review the IRS requirements with their legal counsel to insure they are in compliance with the required tasks associated with these regulatory changes.*

8.2 Request to Close an HSA

The HSA account holder must contact ACS/Mellon to close the HSA account.

9.0 Federal Tax Forms

- The 1099-SA is an IRS form that reports distributions from an HSA during a calendar year. This form is sent by ACS/Mellon in January.
- The 5498-SA is an IRS form that reports all amounts contributed to and the fair market value of an HSA account for the tax year. This form is sent by ACS/Mellon in May because the IRS allows HSA consumers until April 15 to make contributions to their account for the previous year.

10.0 HSA Account Information

- Mellon HSA accounts are owned by the consumer.
- Communications about the account are private.
- Anthem or ACS/Mellon will share the following account information with a broker or employer providing sufficient verification:
 - Has the Employer Application been received? (Anthem)
 - Have the employee Enrollment Applications been received? (Anthem)
 - Have the employees' accounts been established at ACS/Mellon? (ACS/Mellon)

If "No," we recommend contacting your Anthem account representative who will research the status of your group and employee enrollment process. While accounts should be established within 5-10 business days from the time complete enrollment was submitted to Anthem, if applicant information is missing (e.g. SSN) or additional time is needed to verify identification this timing could be extended.

10.1 Group Reporting

Employers using Payroll on the Web (POW!) to fund employees' accounts will use ACS/Mellon's website to view the transactions posting to the employer sub account and submit payroll contribution information.

11.0 Lumenos HSA Forms

Forms the account holder will need can be requested through an Anthem Customer Service Advocate. Anthem and ACS/Mellon offer these forms to assist with managing and administering the HSA account.

- Employer Application Form (employer)
- Employer HSA Agreement (employer)
- Enrollment Application Forms (employee)
- Master Signature Card (employee)
- Return of Excess HSA Contribution (employee)
- Trustee to Trustee Rollover Funds to Health Savings Account (employee)
- HSA Account Closure Form (employee)

12.0 Employer Contributions and Comparability Rules

If an employer wishes to make employer contributions or to facilitate HSA contributions through payroll, the employer should consult with a tax advisor. An employer contribution to the HSA would not be subject to FICA or FUTA, provided that the employer complies with either:

- the HSA comparability rules under section 223 of the U.S. Tax Code, or;
- the cafeteria plan rules under section 125 of the U.S. Tax Code.

Under the Comparability Rule if contributions are made to any employee's HSA, comparable contributions must be made to all employees who are eligible individuals in the same employment category with the same HDHP coverage category. The Comparability Rule does not apply when HSA contributions are made through a cafeteria plan.

Under the cafeteria plan exception, when matching contributions are made through a cafeteria plan, the matching contributions are not subject to the comparability rule. Similarly, if employees who participate in health risk assessments, disease management programs, or wellness programs receive an employer contribution to their HSAs, the contributions are not subject to the comparability rule if the contribution is made "through the cafeteria plan".

Key Decision: If using the cafeteria plan approach to funding HSAs, the written cafeteria plan document must specifically provide for pre-tax HSA contributions by employees. In addition, the employer should consult with its benefits counsel.

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS and other taxing authorities, we inform you that any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed on any taxpayer or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

The above information does not constitute legal, tax, or benefit plan design advice. Anthem strongly encourages consultation with a tax advisor before establishing a Health Savings Account. Any Health Savings Account will be established between the individual account holder and the HSA custodian or trustee. Anthem is responsible for the administration of the health plan, and the custodian is responsible for the administration of the HSA.

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