

FARIBAULT PUBLIC SCHOOLS
HEALTH SAVINGS ACCOUNT SUMMARY

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1. INTRODUCTION

The Company's SelectAccount Flexible Benefit Plan (the "Plan") permits Eligible Employees to choose to pay for certain benefits on a pre-tax basis.

This Summary describes the Health Savings Account ("HSA") Benefit under the Plan. Through the HSA, you can pay Medical Expenses not covered by insurance for yourself and eligible family members on a pre-tax basis. This will generally result in a tax savings and increase your spendable income.

Refer to our *SelectAccount Health Savings Accounts Employee Brochure* for a tax savings example. You may also want to use the *Tax Savings Calculator* link available at the Claims Administrator's web site to estimate your tax savings.

The tax benefit you experience will depend on the benefits you elect, as well as other factors that affect the amount of taxes you pay. Although participating in the Plan can provide significant tax advantages, there may be tax disadvantages to participating in the Plan based on your particular situation. You may wish to consult with your tax advisor.

2. DETAILS REGARDING THE HSA BENEFIT

- (a) **Your Responsibilities.** The HSA is a self-directed, individual account. You are responsible for:
 - (i) reporting to the IRS any contributions that you made to your HSA (whether made through the Plan or otherwise);
 - (ii) reporting to the IRS any distributions that you receive from your HSA;
 - (iii) determining whether HSA distributions are for non-taxable medical expenses;
 - (iv) maintaining documentation sufficient to prove that distributions you did not report as taxable were made for non-taxable medical expenses;
 - (v) payment of income and penalty taxes on distributions which were taxable.
- (b) **Health Savings Account Defined.** A "Health Savings Account" is a tax-favored individual account to be used in conjunction with a High Deductible Health Plan to pay Medical Expenses not covered by the High Deductible Health Plan, such as deductibles and co-insurance.
- (c) **HSA Custodian.** For administrative convenience, the Company has selected SelectAccount as the HSA custodian for amounts contributed to HSA accounts through this Plan. You will be provided the forms necessary to establish an HSA with SelectAccount. You will be responsible for managing your HSA and for complying with the rules established by SelectAccount and the IRS. Once your pre-tax contributions are deposited into your HSA, you are free to request a distribution of the funds or to transfer them to another HSA trustee or custodian.

- (d) **Employer Contributions.** If an Employer contribution is made, the Employer will contribute an equal amount to each Participant in the same coverage category who participates the entire plan year, except that the Employer may contribute less to highly compensated employees than non-highly compensated employees in the same coverage category. If the Participant's Period of Coverage is less than a Plan Year, the amount will be adjusted accordingly. Refer to the *Plan Specifics* for information on whether an Employer contribution is provided.”
- (e) **Limitations for HSA and Medical FSA Combination.** If you elect to participate in both the HSA and the Medical FSA benefits under this Plan, your Medical FSA is automatically limited to reimbursement of the type of HSA-compatible expenses: Vision and Dental; Post Deductible Medical. You may also choose to participate in an HSA-Compatible Medical FSA to maintain your eligibility and/or the eligibility of your spouse to participate in an HSA outside of this Plan. If you have not elected HSA coverage under this Plan, however, you must notify SelectAccount that you wish to participate in an HSA-Compatible Medical FSA.
- (f) **Maximum Contribution Limit.**

The following are general rules about maximum HSA contributions. You should consult with your tax advisor or the HSA custodian or trustee for additional details.

- (1) The maximum contribution to an HSA is determined on a yearly basis. If you are eligible for and participating in an HSA for less than 12 months, you must prorate the maximum contribution to account for the months in which you were not eligible or were not participating in the HSA (divide the annual maximum by 12 to determine the maximum contribution per month and then multiply that amount by the number of months you were eligible for and were participating in the HSA). If, however, you are eligible to contribute to an HSA on December 1 of a year, you can contribute the maximum contribution (no proration is required). If you do not remain covered by a High Deductible Health Plan and otherwise eligible for the entire next year (a 13-month period), you will generally be required to pay income tax and a 10% penalty tax on the amounts that you contributed for months in which you were not eligible to contribute to an HSA.
- (2) For self-only coverage, the maximum contribution limit is the statutory indexed amount (\$3,050 in 2011; \$3,100 in 2012).
- (3) For family coverage, the maximum contribution limit is statutory indexed amount (\$6,150 in 2011; \$6,250 in 2012).
- (4) A Participant who is 55 or older before the end of the year may make an additional \$1,000.00 “catch up contributions” to the HSA.
- (5) A Participant cannot make any contribution for any month in which he or she is entitled to Medicare benefits.

- (g) **Medical Expenses Eligible for Reimbursement.** To be eligible for reimbursement, an expense must be for medical care provided to diagnose, treat, or prevent disease or for sickness or injury pursuant to IRS rules.
- (h) **Non-Medical Expenses Can Be Reimbursed but Will Be Penalized.** HSA funds can be withdrawn for non-medical reasons but you must pay income taxes on the amount withdrawn and you will generally also be required to pay an additional penalty tax (20%). The penalty tax will not apply to certain distributions made after death, disability or after age 65.
- (i) **You must generally request reimbursement.** To receive reimbursement for Medical Expenses, you must submit an authorization for reimbursement to the HSA custodian or trustee and retain independent third-party documentation of the expense.
- (j) **Automatic Submission of Claim for Reimbursement (Crossover).** If you participate in a Blue Cross Blue Shield of Minnesota group medical plan, you can have the group plan automatically submit requests for reimbursement of non-covered expenses (e.g., deductible amounts) to your HSA. We call this “crossover”, in which you are automatically enrolled. If you are covered under more than one major medical plan, we do not recommend that you participate in the cross over program.

3. **ELIGIBILITY**

- (a) **Only Eligible Employees may participate.**
- (b) **Additional Eligibility Requirements for HSA Benefits.** In addition to the eligibility requirements stated in the *Plan Specifics*, an Employee must:
 - (1) be covered under a High Deductible Health Plan; and
 - (2) not be covered under any health plan that is not a High Deductible Health Plan other than coverage permitted under IRS HSA regulations (for example, dental, vision or preventative care). (You cannot be covered under any non-permitted coverage, including a medical flexible spending account that is not HSA-compatible, whether through your Employer or your spouse’s employer.)
- (c) **Monthly Determination of Eligible Employee Status.** Due to federal tax rules, the status of an individual as an Eligible Employee for the HSA must be determined as of the first day of each month. For each month you contribute and you are not an Eligible Employee, you will be required to pay income taxes and a penalty tax of 10% of your contributions.”

4. **DEPENDENTS**

- (a) To use the HSA for reimbursement of Medical Expenses incurred by a family member, he or she must qualify as your Dependent.

- (b) For the HSA, “Dependent” means a person whom you can claim as a dependent on his or her federal income tax return (or whom you would be able to claim but for income limitations that apply to income tax dependency status).

5. **ENROLLMENT**

- (a) **Enrollment Procedure.** The Plan Administrator will provide enrollment instructions. You must complete your enrollment within the time specified by the Plan Administrator.
- (b) **HSA Election.** You must indicate the amount you want to contribute, if any, to an HSA when you enroll.
- (c) **Certification of Eligibility.** To enroll in an HSA, you must certify the following:
 - (1) You have self-only or family coverage under a health plan which qualifies as a High Deductible Health Plan;
 - (2) You cannot be claimed as another person’s tax dependent;
 - (3) You are not entitled to Medicare benefits;
 - (4) If you have any health coverage other than coverage under the Employer High Deductible Health Plan, that coverage is either:
 - (i) under a health plan that qualifies as a High Deductible Health Plan; or
 - (ii) is other insurance permitted by law (the Code or IRS regulation).
 - (5) If you are married, that your spouse does not have any non-High Deductible Health Plan family coverage.

6. **WHEN PARTICIPATION BEGINS**

Your participation begins on the Entry Date stated in the *Plan Specifics*.

7. **ELECTION CHANGES DURING THE PLAN YEAR**

A Participant may increase or decrease contributions for an HSA at any time as long as the change is effective prospectively.

8. **PARTICIPATION DURING A LEAVE OF ABSENCE**

Coverage will continue under this Plan during a leave of absence in accordance with the Company’s leave policies and Plan Rules. If there is a conflict between the information provided in this section and the Company’s leave policies, the Company’s leave policies will control. Your leave must be approved by the Company. Contact the Plan Administrator for details.

- (a) **Paid Leave of Absence.** Your HSA contribution will automatically continue during a leave of absence as long as you continue to receive pay.
- (b) **Unpaid Leave of Absence.** Your HSA contribution will automatically terminate during an unpaid leave of absence.
- (c) **Making Election Changes.** You may change your HSA election at any time, including while you are on leave.

9. **OBTAINING REIMBURSEMENTS**

- (1) **Medical Expenses.** Medical Expenses must be incurred after the date the HSA is established to be eligible for reimbursement through the HSA. There is no time limit for submitting claims for reimbursement from the HSA.
- (2) **You are Not Required to Submit Documentation Supporting Tax-Free Status but You Should Retain It.** You are responsible for determining whether the distributions from the Health Savings Account will be tax-free for expenses incurred for medical care or the medical care of a Participant's legal spouse or tax dependents. No documentation is required to be submitted for reimbursement. (It is a good idea, however, to retain documentation showing that the amount received was for a tax-free medical benefit in case you are audited by the IRS.) Distributions are paid to you following the receipt by the HSA Trustee of your authorization for distribution.
- (3) **Distributions.** Amounts paid out of an HSA are called "distributions." The distribution process is handled by the HSA custodian or trustee.
- (4) **Other Rules.** You must comply with any other rules established by the HSA custodian/trustee or the IRS.

10. **TERMINATION OF PARTICIPATION DUE TO TERMINATION OF EMPLOYMENT**

- (a) **When Participation Ends.** If your employment with the Employer terminates, your participation in the Plan will end as of the date of your termination of employment. This means that you will no longer be able to contribute to your HSA on a pre-tax basis through this Plan. You may, however, continue to contribute to your HSA outside of this Plan.
- (b) **Medical Expenses Incurred After Termination.** You may continue to submit Medical Expenses to your HSA for reimbursement even after your Plan participation ends.
- (c) **Participation Fees After Termination.** You will not forfeit amounts remaining in your HSA upon termination of participation in the Plan. You may continue to use your HSA balance to pay eligible Medical Expenses. If you choose to continue your HSA account, all prospective participant fees will become your responsibility.

- (d) **Re-employment by a Participating Employer.** If you terminate employment and are re-employed by a Participating Employer, you may participate in the Plan as indicated in the *Plan Specifics*.

11. **OTHER REASONS FOR TERMINATION OF PARTICIPATION**

- (a) Your participation in this Plan can also end if:
 - (1) you no longer qualify as an Eligible Employee;
 - (2) your Employer stops participating in this Plan;
 - (3) you commit fraud or misrepresent your eligibility to participate or the eligibility of a claim for reimbursement under this Plan;
 - (4) the Company terminates the Plan; or
 - (5) if the certifications you made to participate are no longer accurate.
- (b) The rules discussed above for termination of participation as a result of termination of employment also apply if termination of participation occurs for other reasons.

12. **NO FORFEITURE OF ACCOUNT BALANCE**

- (a) A Participant in the HSA who terminates employment or is no longer eligible to make contributions to the HSA does not forfeit his or her interest in the balance of the HSA.
- (b) The Participant may elect to have the Claims Administrator continue to administer his or her HSA, or he or she may elect to rollover his or her HSA to another HSA.

13. **NOTICES**

- (a) **ERISA, HIPAA and COBRA Do Not Apply.** The HSA is not an employee benefit plan within the meaning of ERISA and is not subject to ERISA, HIPAA or COBRA.
- (b) **Company's Right to Terminate or Amend the Plan.** The Company reserves the right to amend or terminate the Plan at any time and without notice.
- (c) **No Guarantee of Employment.** Participation in this Plan is not a guarantee of employment.
- (d) **Plan Administrator's Discretion.** The Plan Administrator (and persons to whom it has delegated powers, to the extent of such delegation) has total and complete discretionary authority with respect to administration and interpretation of the Plan. Benefits under the Plan will only be paid if the Plan Administrator decides in its discretion that a claimant is entitled to them.