



Principal Health Savings Accounts

Employees' Frequently Asked Questions

BACKGROUND	
QUESTION	ANSWER
Why were health savings accounts (HSAs) created?	The state of the health care industry could be greatly improved if people made more informed decisions about their health and care. An HSA gives you a financial incentive to do just that — through the opportunity to accumulate funds and reap tax advantages on your health care purchases. The more you learn and the more careful you are about your purchases, the greater your advantage and the more you may be able to save for the future. By encouraging you to save money, HSAs also help lower costs, improve the health care system and ultimately control rising health coverage costs — a win-win for everyone.
What are the key features of an HSA?	<ul style="list-style-type: none"> • Money can be contributed pre-tax. • Funds can earn interest or investment returns tax-free. • The money can be used tax-free to pay for qualified medical expenses. • Balances can be used in future years and the HSA is portable.
Can the money in a person's HSA be taken away? Do HSAs, like flexible spending accounts (FSAs), have a "use it or lose it" rule?	No. Once money is contributed to an HSA, it belongs to the participant and can't be forfeited. It can be carried forward to future years and used to pay qualified medical expenses.
What is a high deductible health plan (HDHP)?	<p>An HDHP is health insurance that satisfies certain government requirements.*</p> <ul style="list-style-type: none"> • For 2007, an HDHP for an individual must have: <ul style="list-style-type: none"> – An annual deductible of \$1,100 or greater – An annual out-of-pocket limit of \$5,500. • For 2007, an HDHP for a family must have: <ul style="list-style-type: none"> – An annual deductible of at least \$2,200 – An annual out-of-pocket limit of \$11,000. • For 2008, an HDHP for an individual must have: <ul style="list-style-type: none"> – An annual deductible of \$1,100 or greater – An annual out-of-pocket limit of \$5,600. • For 2008, an HDHP for a family must have: <ul style="list-style-type: none"> – An annual deductible of at least \$2,200 – An annual out-of-pocket limit of \$11,200. <p>The deductible and out-of-pocket amounts change annually to account for inflation.</p> <p>Except for preventive care, the coverage may not provide benefits until the annual deductible for the year is met.</p> <p>*An HDHP may also be a self-funded design.</p>

Are there special rules for preventive care under an HDHP?	Preventive care such as annual check-ups and well-child doctor's visits can be covered with a small deductible — or even no deductible — without disqualifying the participant from using an HSA.
When can the HSA be used to reimburse qualified medical expenses?	The HSA can be used as of its "established date," which is the date when the following are in place: <ul style="list-style-type: none"> • The HSA is open • The first contribution has been made
Is there a joint or co-owned HSA?	No. However, each eligible spouse may open his or her own HSA. They must then decide how to divide the maximum contribution between them.
Are HSAs tied to a job or position?	No. HSAs are completely portable. Variables such as job changes, changes in medical coverage, unemployment, a move to another state, changes in marital status, etc. do not affect ownership of the HSA. However, in order to continue to make HSA contributions, the participant must meet all eligibility requirements.
What happens to an HSA balance if a participant loses HDHP coverage, and therefore eligibility?	The participant can still use the funds in the HSA to reimburse qualified medical expenses without penalty. The participant cannot make new contributions to the account.
What happens to the HSA upon death of the participant?	If the spouse is the designated beneficiary, the funds can be transferred to an HSA in his or her name, or mailed to the spouse. If the beneficiary is anyone else, the account is no longer considered an HSA and the fair market value becomes taxable income in the year in which the death occurs.

ELIGIBILITY	
QUESTION	ANSWER
Who can have an HSA and who owns the account?	To qualify: <ul style="list-style-type: none"> • A person must be covered by an HDHP on the first day of the month. • A person must not be covered by any medical benefit that is not a qualified HDHP. • A person must not be enrolled in Medicare benefits. • A person may not be claimed as a dependent on someone else's tax return.
Are there any employment requirements in addition to meeting the above requirements?	No, all U.S. citizens and resident aliens are eligible. Eligibility for an HSA is not based on employment.
Are there age requirements for establishing an HSA?	No. The regulations place no age restrictions on establishing an HSA.
Does a person's income affect the ability to have an HSA?	No. There are no income limits.
Can a non-resident alien have an HSA?	No. We are unable to open an HSA account for non-resident aliens.
Can an HSA be established before HDHP coverage begins?	No. HDHP coverage must be in place first, but certain steps can be completed before coverage begins to ensure the HSA will be available as early as possible.
Who is responsible for maintaining the HDHP coverage?	The HSA participant is responsible for enrolling in and maintaining qualified HDHP coverage.

If an employer offers both standard health coverage and an HDHP, can the employees still enroll in an HSA?	Yes. The employees who choose the HDHP can enroll in an HSA.
Can separate accounts be established for dependent children?	No.
What happens when parents divorce and each parent covers a child under his or her health insurance? Example: Mother is covered through an HDHP and father has a traditional benefit. Can the mother contribute to the HSA?	Yes. The mother could contribute up to the family limit.
If a participant has family HDHP coverage and his or her spouse has self-only HDHP coverage, can either person contribute?	Yes. If either eligible spouse has family coverage, both are treated as having family coverage. The contribution limit is divided equally between the spouses unless they agree on a different division.
If both eligible spouses have different family HDHP coverages, how is the contribution determined?	If either eligible spouse has family coverage both are treated as having family coverage. The contribution limit is divided equally between the spouses unless they agree on a different division.
If a participant has self-only coverage under a qualified HDHP and the participant's spouse has self-only non-HDHP coverage, can either contribute to an HSA?	The participant covered under the qualified HDHP is eligible to contribute to an HSA. The spouse is not eligible.
If a participant has either self or family HDHP coverage, but the participant's spouse has non-HDHP family coverage, can either contribute to an HSA?	Since both participant and spouse are covered under a non-HDHP, neither is eligible to contribute to an HSA.
If a participant has family HDHP coverage and his or her spouse has self-coverage under a non-HDHP, can either person contribute to an HSA?	The participant is eligible to contribute to an HSA, but the spouse is not.
Can state laws create situations in which HSAs can't be established?	Yes. Mandated benefits in certain states may disqualify high deductible health plans, and therefore, HSAs.
OTHER COVERAGE PARTICIPANTS CAN HAVE AND STILL BE ELIGIBLE	
What types of permitted insurance and other coverage can a person have in addition to an HDHP and still be eligible to have an HSA?	<p>Examples of permitted insurance include property and casualty, tort liability, workers' compensation, insurance for a specified disease or illness, or insurance that pays a fixed amount per day for hospitalization.</p> <p>Permitted coverages include accident, disability, dental care, vision care, long-term care coverages, employee assistance programs, disease management programs, wellness programs, prescription drug discount cards, and Veterans Administration benefits if not received in the last three months.</p>
Can a person establish an HSA if his or her spouse has a health flexible savings account (FSA) or health reimbursement arrangement (HRA)?	No, not if the HRA or FSA pays for any medical expenses before the deductible is met. However, there are some types of HRAs and FSAs that are specifically designed to work with an HSA.
What kinds of FSAs and HRAs can be used while participating in an HSA?	<ul style="list-style-type: none"> • Limited-purpose FSAs that only reimburse benefits such as vision, dental, or preventive care • Limited-purpose HRAs that only reimburse benefits such as vision, dental, or preventive care • FSAs that only reimburse expenses after the minimum annual deductible has been satisfied • HRAs that only reimburse expenses after the minimum annual deductible has been satisfied • Suspended HRAs in which the participant foregoes any payment from the HRA for the coverage period

CONTRIBUTIONS	
QUESTION	ANSWER
When and how can the HSA be funded?	<ul style="list-style-type: none"> • The HSA may be funded at any time prior to the participant's tax filing deadline (usually April 15 of the following year). • It must be funded in cash (i.e., it cannot be funded with credit, stocks or property). • It may be funded at any time during the year as long as the participant is eligible.
How quickly must a new HSA checking account with Principal Bank be funded?	The first contribution must be made within 45 days of the account's opening at Principal Bank.
What is the deadline for contributing to an HSA for a given year?	HSAs can be funded up to the participant's tax filing deadline (usually April 15 of the following year). The HSA may even be opened between January 1 and April 15, and contributions may be made for the previous year if the HDHP was effective in the prior year.
Do HSA contributions have to be made in equal amounts each month?	No. The amount and frequency can vary. Funds can even be contributed in a single lump sum. The total can't exceed the annual contribution limit.
Is there a minimum contribution to open an HSA?	<ul style="list-style-type: none"> • There is no minimum balance required to open an HSA checking account with Principal Bank. • Principal Bank certificates of deposit (CDs) require \$1,000 per CD. • Mutual funds available through Princor Financial Services Corporation require an initial minimum investment of \$1,000 per fund.
What is the maximum annual HSA contribution?	<p>For 2007, the maximum contribution is</p> <ul style="list-style-type: none"> • \$2,850 for self-only coverage • \$5,650 for family coverage <p>For 2008, the maximum contribution is</p> <ul style="list-style-type: none"> • \$2,900 for self-only coverage • \$5,800 for family coverage
What are HSA catch-up contributions?	People between ages 55 and 65 can contribute an extra \$800 in 2007. This amount increases \$100 annually until it reaches \$1,000 in 2009.
Can HSA and MSA funds be transferred or rolled over into an HSA?	Yes. Participants may complete one rollover per year from one HSA to another HSA. Funds must be rolled to the new HSA within 60 days of distribution or face income taxes and a 10 percent penalty on the amount. Participants can also complete a trustee-to-trustee transfer.
Are rollover contributions permitted from individual retirement accounts (IRAs), health reimbursement arrangements (HRAs), or flexible spending accounts (FSAs)?	<p>Yes. These trustee-to-trustee transfers are allowed, but trustees or custodians are not required to accept them. Rollovers from FSAs and HRAs are not subject to the annual contribution limit.</p> <p>Rollovers from an FSA or HRA cannot exceed the lesser of:</p> <ul style="list-style-type: none"> • The balance in the FSA or HRA as of September 21, 2006. • The balance in the FSA or HRA as of the date of transfer. <p>Rollovers are subject to the annual contribution limits in the case of IRAs.</p>
What is the mailing address for contributions?	The address is: Principal Bank, PO Box 9351, Des Moines, IA 50306-9351.
EXCESS CONTRIBUTIONS	
What if the contributions to an account exceed the set limits?	Excess contributions and the earnings from them may be withdrawn before April 15 of the following year to avoid penalties. If these funds are not withdrawn, they are added to the participant's gross income and are subject to income tax plus an additional 10 percent tax.

If a person contributes too much, is there a remedy after April 15 so that taxes will not continue to apply?	The participant can decrease the contribution the following year. Failure to do this subjects the owner to ongoing income and additional taxes on the excess contribution and associated earnings.
Who is responsible for assuring that the limits are not exceeded?	The HSA participant is responsible for monitoring their contributions.
WHO CAN CONTRIBUTE?	
Who can contribute to an HSA and take a tax deduction?	Anyone can contribute to an individual's HSA, including relatives and the sponsor (usually the employer). For contributions other than the sponsor's, the tax deduction would benefit the participant and not the contributor.
Once someone receives Social Security benefits, can they contribute to an HSA?	No. Once a person enrolls in Medicare, no further contributions can be made.
Can participants who are age 65 or older still contribute to an HSA?	A participant who is eligible for Medicare but not enrolled in Medicare may contribute to an HSA.
Can participants who are enrolled in Medicare Part A or B make catch-up contributions?	No. Once participants are enrolled in Medicare Part A or B they cannot make <i>any</i> contributions.
If a person receives VA benefits, can he or she contribute to an HSA?	No. Contributions may not be made if the participant has received medical benefits from the VA during the previous three months.
How are employer contributions treated?	Contributions made by an employer do not require income-tax withholding and are not subject to FICA, FUTA or the Railroad Retirement Act.

INVESTMENT OF FUNDS	
QUESTION	ANSWER
How can the funds in an HSA be invested?	HSAs may be invested in products approved for IRAs including bank accounts, annuities, CDs, stocks, bonds, and mutual funds.
What investments are not approved for use with an HSA?	HSAs may not be invested in life insurance contracts or collectibles.
What prohibited transaction rules apply to HSAs?	Participants may not sell, exchange, or lease property, borrow or lend money, furnish goods, services or facilities, or pledge HSA assets. These are all prohibited transactions under IRS regulations.

USING HSA FUNDS	
QUESTION	ANSWER
What is a 'qualified medical expense'?	Qualified medical expenses are defined in section 213(d) of the Internal Revenue Code, but only to the extent the expenses are not covered by insurance or otherwise. Expenses must be incurred after the HSA has been established in order to be reimbursed from the HSA.
Is there a list of 'qualified medical expenses'?	Yes. Section 213(d) of the Internal Revenue Code defines qualified medical expenses. Please check www.irs.gov for more information. You can also refer to Principal Life publication GP 51632, <i>Eligible and Excluded Expenses</i> , for some limited examples.
Are there any taxes or penalties associated with distributions for 'qualified medical expenses'?	No.

Are there any taxes or penalties associated with distributions for non-qualified medical expenses?	Yes. Participants under age 65: Non-qualified withdrawals subject to income tax plus an additional 10% penalty. Participants age 65 and older: Non-qualified withdrawals subject to income tax.
Is there any time that participants can withdraw funds from their HSA for things other than qualified medical expenses and not be assessed a penalty by the IRS?	Yes. At age 65, or if disabled, withdrawals may be made from an HSA for any reason without being subject to an additional tax; however, the withdrawals will be taxed as ordinary income.
Who is responsible for determining that a medical expense is 'qualified'?	The participant is responsible for determining the status of medical expenses reimbursed from an HSA.
What medical expense records must be kept?	Records must show: <ul style="list-style-type: none"> • That the money was used for qualified medical expenses • That the expenses had not been previously paid or reimbursed from another source • That the expenses had not been taken as an itemized deduction in any year.
Can medical expenses be reimbursed if they were incurred before the HSA was established? For example: My HDHP was effective on April 1 and my HSA was established April 15. Can medical charges incurred between the 1st and 15th be reimbursed by the HSA?	No. Claims incurred from April 1 to April 14 cannot be reimbursed because the HSA was not established on April 1.
Are over-the-counter drugs considered 'qualified medical expenses'?	Yes, if they are listed in Section 213(d) of the Internal Revenue Code.
Can HSA funds be used to pay premiums for an HDHP?	No. Health insurance premiums are not considered 'qualified' except for the following: <ul style="list-style-type: none"> • Qualified long-term care insurance • COBRA health care continuation coverage • Health care coverage while a participant is receiving unemployment compensation
Can HSA funds be used to pay premiums for Medicare?	Yes. Medicare Part A, B, and D, Medicare Advantage (HMO), or retiree contributions to employer-sponsored coverage are qualified medical expenses.
Are Medigap premiums qualified medical expenses?	No.
Can HSA funds be used for payment of qualified long-term care insurance premiums?	Yes. However, the amount is subject to limits based on age and is adjusted annually. Please check these limits in the instructions for Form 1040 Schedule A.
Can HSA funds be used for payment of long-term care expenses?	Yes. Amounts paid for qualified long-term care services are qualified medical care expenses.
What is the deadline for reimbursing expenses from a health savings account?	Qualified medical expenses incurred in the current year can be reimbursed in later tax years. There is no time limit; however, the participant must keep appropriate records to show that the reimbursements are qualified.
What happens if medical expenses that the participant thought were qualified actually were not qualified?	If there is clear evidence that a distribution was made due to reasonable mistake of fact, the distribution may be repaid no later than April 15 following the first year the participant knew or should have known the distribution was a mistake. Under these circumstances, the distribution is not included in gross income or subject to the 10 percent additional tax, and the repayment is not subject to the additional tax on excess contributions.

Can a participant borrow funds from the HSA and use future contributions as repayment?	No.
On whose behalf can expenses be reimbursed with HSA funds?	Qualified distributions may be taken on behalf of the participant, his/her spouse, and his/her eligible dependents.
If the HSA is partially or fully funded at the beginning of the calendar year, can the participant withdraw the entire balance?	Yes. The entire available balance could be withdrawn from the HSA.

PRINCIPAL FINANCIAL GROUP ACCOUNT ADMINISTRATION	
QUESTION	ANSWER
Who is responsible for health saving account (HSA) administration?	Principal Life Insurance Company is the custodian for the HSA, with products and services provided by Principal Bank and Princor Financial Services Corporation.
What "triple tax savings" do HSAs offer?	The "triple tax savings" comes from: <ul style="list-style-type: none"> • Tax savings on contributions • Tax-free investment earnings • Tax-free distributions for qualified medical expenses Some states do not allow for the same favorable tax treatment of HSAs as the federal government does.
Where can the interest rates be found for HSAs?	HSA rate information for Principal Bank products is available online at www.principalbank.com . Under 'Tools & Services' on the left navigation, select 'Rates and Values', then 'Health Savings Accounts'.
Will the claims submitted to an HDHP provider be automatically reimbursed from the HSA?	No. The HSA funds can be accessed only by the participant or an authorized signer.
Who should participants call if they have questions about HSAs and claim processing?	There is no "claim processing" within the HSA. For claim processing questions regarding an HDHP, the participant should contact the carrier that underwrites or administers his or her HDHP coverage.
Can Principal HSA information be accessed through the Principal Interactive Voice Response (IVR) or Internet?	Yes. Participants can use the Internet to access account information for HSAs. Currently, only mutual fund account information can be accessed through the IVR.
ACCOUNT SET-UP	
Can Principal Bank accept a fax of the enrollment form?	No. The original enrollment form must be sent.
How does a participant open an HSA with The Principal through his or her sponsor?	Please refer to Principal Life publication GP 53808, <i>HSA Employer Checklist</i> , for a complete description.
Where should Enrollment Form and new paper enrollment forms be sent?	For new stand-alone HSAs, mail forms to: Principal Financial Group HSA Administration 711 High Street Des Moines, IA 50392-0506. For groups with new Principal Life HDHP and HSA, the employer will submit the forms with their new case materials.

What is included in the Principal HSA welcome kit?	<p>The bank welcome kit includes:</p> <ul style="list-style-type: none"> • Welcome letter • Principal Bank Terms and Conditions • Bank fee schedule • HSA bank brochure • Deposit slips • Business reply envelopes • Principal Bank product and services brochure • Privacy notice <p>Additionally, certificate of deposit (CD) customers receive:</p> <ul style="list-style-type: none"> • CD receipt <p>Additionally, mutual fund customers receive:</p> <ul style="list-style-type: none"> • Welcome letter • Confirmation of funds received
Who should participants contact to open an HSA mutual fund account?	Participants should call Principal Bank at (800) 826-2364 to request information about purchasing an HSA mutual fund product.
How do individuals submit their contributions or payroll deductions?	<p>Contributions can be made pre-tax through their employer.</p> <p>Individuals may also make periodic contributions by mailing them to Principal Bank with an HSA deposit slip.</p>
PRINCIPAL BANK HSA ACCOUNTS	
Are Principal Bank accounts insured?	Yes. Principal Bank HSAs are FDIC insured up to \$100,000 per depositor for CDs and checking accounts.
How often does The Principal produce account statements?	HSA checking account statements are produced monthly. CDs do not have statements. Mutual fund statements are created quarterly.
When are the HSA debit card and checks sent to participants?	Checks and/or debit cards should arrive approximately 10 days after the enrollment form arrives at Principal Bank and the account is opened.
Can an Authorized Signer's name be printed on the HSA checks?	Yes.
Will new checks be ordered when the Authorized Signer form is received after the account is opened?	Yes, if new checks are requested on the Authorized Signer form. The customer will pay for their new checks.
If the debit card is stolen, what is the owner's liability?	<p>Per Visa requirements, if the card is reported within 24 hours of loss, the owner's liability is zero.</p> <p>Otherwise, there is a standard liability up to \$50. Liability could be greater than \$50 if the card is misused by the cardholder.</p>
How can additional deposit slips be ordered?	Deposit slips are provided free of charge. To request, call Principal Bank at (800) 826-2364.
ACCOUNT FEES	
How much do additional debit cards for the checking account cost?	There is no cost for an additional card, but the maximum per account is two.
Is there a renewal fee on the debit card?	No.
Is there a fee for a lost debit card?	Yes. The card replacement fee is \$10 (plus tax). If the card must be rush delivered, there is an additional overnight delivery fee.

How many free withdrawals or distributions are allowed on the checking account?	Six transactions per monthly cycle are allowed. After six, a \$10 (plus tax) per withdrawal fee is charged to the account.
What fees apply to Principal Bank HSA products?	A schedule of fees is available in both the welcome kit and online at www.principalbank.com . In the left navigation, select 'Products', then 'Health Savings Accounts'.
Why is sales tax included in monthly service fee and other bank charges?	The state of Iowa requires sales tax be charged on certain bank services.
Can the set-up fee or monthly fees be waived?	No.
Who pays the one-time set up fee?	The sponsor will determine who pays the fee, but either the participant or the sponsor can pay the fee.
Is there an inactive/dormant account fee?	No.
How are monthly maintenance fees billed?	Monthly maintenance fees are debited directly from the checking account each month.
Can the monthly maintenance fee be paid in an annual lump sum?	No.
What is the fee for overdrawing an HSA checking account?	A \$30 fee will be charged to the account and the check will be returned non-paid. The fee is displayed as a Non-Sufficient Fund (NSF) fee.
If an HSA is overdrawn due to monthly maintenance fees and the participant requests the account be closed, how is the account handled?	If the account is overdrawn solely because of the monthly service fees, the NSF fee will be refunded and the account closed.
What if the participant's account is overdrawn due to an excessive transaction fee?	This type of fee will not be waived. The participant must send funds to bring the account balance to positive. The participant is allowed 30 days to bring the account current before it is closed.
What happens when an HSA checking account has a zero balance?	The monthly fee continues to be charged and the account will be overdrawn until a deposit is made.
How does Principal Bank handle an overdrawn HSA checking account?	The participant receives an overdraft notice. If the account remains overdrawn at month's end, a call is placed to discuss the account status. Accounts overdrawn more than 30 days may be closed and reported to the appropriate credit bureaus.
CLOSING ACCOUNTS	
Can a participant close his or her HSA over the phone?	Checking accounts and CDs can be closed with appropriate authentication. Mutual funds redemptions cannot be requested over the phone.
Is there a fee to close the HSA?	<ul style="list-style-type: none"> • Checking accounts - no • CDs - yes, early withdrawal penalties may apply. • Mutual funds - 1 percent contingent deferred sales charge is deducted from the account if closed in the first 18 months.
Will a checking account with Principal Bank automatically close due to inactivity?	Only if the account has a negative balance due to monthly fee charges. Then the account will close after 60 days of continuous overdraft status.
Can a checking account be closed and later re-opened?	No. An HSA that has been closed cannot be re-opened. A new enrollment form and setup fee would need to be submitted to open a new HSA.

TAX REPORTING	
QUESTION	ANSWER
What tax forms are provided to participants?	<ul style="list-style-type: none"> • Form 5498-SA shows HSA contributions and is provided by May 31 of the year following contributions. • Form 1099-SA shows distributions and is provided by January 31 of the year following distributions. • Employer contributions are also shown in box 12 of Form W-2, Wage and Tax Statement, with Code W.
What tax forms must participants complete?	All contributions and distributions must be reported on Form 8889 and filed with Form 1040, even if the only contributions to the HSA are made by another party.
If employers make HSA contributions through payroll deduction, is there a line item on the IRS W-2 form?	Yes. Box 12, Code W.

ADDITIONAL SOURCES OF INFORMATION
<p>www.treas.gov/offices/public-affairs/hsa</p> <p>www.irs.gov/publications/p969/index.html</p>



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Principal Life Insurance Company, Des Moines, Iowa 50392-0002

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