ANCHOR BANK

Health Savings Accounts (HSAs)

A health savings account (HSA) allows you to pay for your current health care expenses and to save for future qualified health expenses on a tax-free basis. You must be an eligible individual to qualify for an HSA. No permission or authorization from the IRS is necessary to establish an HSA.

Benefits of an HSA

Tax Benefits

- Contributions to your HSA made by your employer (including contributions made through a cafeteria plan) may be excluded from your gross income.
- The interest or other earnings on the assets in the account are *tax free*.
- Distributions may be tax free if you pay qualified medical expenses. See *Qualified medical expenses,* later.
- You can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA even if you do not itemize your deductions on Form 1040.

Flexibility

- An HSA is "portable" so it stays with you if you change employers or leave the work force.
- The contributions remain in your account from year to year until you use them. There are no "use it or lose it" rules for HSAs.

Savings

- You should be able to lower your health insurance premiums by switching to coverage with a higher deductible.
- The money in your HSA can be invested to earn higher interest.
- After age 65 HSA assets can be used for retirement (but may be subject to income tax if not used for medical expenses).

Qualifying for an HSA

To be an eligible individual and qualify for an HSA, you must meet the following requirements.

- You have a high deductible health plan (HDHP), described later, on the first day of the month.

- You have no other health coverage except what is permitted under *Other health coverage* (see IRS Publication for more info).
- You are not enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's 2007 tax return.

Sole Proprietors and others who are self-employed can have an HSA and are often ideal candidates. The self employed can benefit from lower health insurance premiums and tax savings.

Each spouse who is an eligible individual who wants an HSA must open a separate HSA. You cannot have a joint HSA.

Contact the Washington State Insurance Commissioner to find out if your plan qualifies as a HDHP. 1-800-562-6900. www.insurance.wa.gov/

High deductible health plan (HDHP).

An HDHP has:

- A higher annual deductible than typical health plans, and
- A maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that you must pay for covered expenses. Out-of-pocket expenses include co-payments and other amounts, but do not include premiums.

An HDHP may provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible. Preventive care includes, but is not limited to, the following.

1. Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals
2. Routine prenatal and well-child care
3. Child and adult immunizations
4. Tobacco cessation programs
5. Obesity weight-loss programs
6. Screening services

The following table shows the minimum annual deductible and maximum annual deductible and other out-of-pocket expenses for HDHPs for 2008.

Type of Coverage	Minimum Annual Deductible	Maximum Annual Deductible and Other Out-of-Pocket Expenses *
Self-only	$1,100	$5,600
Family	$2,200	$11,200

* This limit does not apply to deductibles and expenses for out-of-network services if the plan uses a network of providers. Instead, only deductibles and out-of-pocket expenses for services within the network should be used to figure whether the limit applies.

Contributions to an HSA

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee, the employee's employer, or both may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute. Family members or any other person may also make contributions on behalf of an eligible individual.

You can contribute to your Anchor Bank HSA Account through participating employer payroll deduction programs, stopping by the branch to make a deposit, or by transferring funds through *netBanking*.

Limit on Contributions

The amount you or any other person can contribute to your HSA depends on the type of HDHP coverage you have, your age, the date you become an eligible individual, and the date you cease to be an eligible individual.

For 2008, if you have self-only HDHP coverage, you can contribute up to $2,900. If you have family HDHP coverage you can contribute up to $5,800.

Additional contribution

For 2008, if you are an eligible individual who is age 55 or older and have not enrolled in Medicare, you can contribute an <u>additional</u> $900.

Distributions from an HSA

You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible for the plan. When you pay medical expenses during the year that are not reimbursed by your

HDHP, you can use funds from your Anchor Bank HSA account to pay for your medical expenses.

You can use your Anchor Bank HSA Debit Card to pay for your qualified medical expenses on the spot or use online bill pay through *netBanking* to pay medical providers directly.

If you receive distributions for other reasons, the amount you withdraw will be subject to income tax and may be subject to an additional 10% tax.

If you mistakenly use HSA assets for expenses other than qualified medical expenses you *may* be able to return those funds to your HSA account. However, you must be prepared to provide the IRS with evidence that the HSA distribution was the result of a mistake due to reasonable cause and must be returned to the HSA account no later than April 15 of the following year. See IRA Publication 969 for further details.

Qualified medical expenses

Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. The Internal Revenue Service provides a detailed list of acceptable expenses on their website at http://www.irs.gov/publications/p969/ar02.html#d0e159

This is a partial list for your reference:

- Office co-pays
- Prescription and non-prescription medications
- Dental treatments (except cosmetic) and braces
- Operations (except cosmetic)
- Contact lenses, eye glasses, or eye surgeries (including laser eye treatments)

Recordkeeping

You must keep records sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

Balance in an HSA

An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year. Earnings on amounts in an HSA are not included in your income while held in the HSA.

In the event of your death if your spouse is the beneficiary, the HSA becomes his/her HSA. If the beneficiary is not your spouse, the HSA ceases to be an HSA on the date of your death. See IRS Publication 969 for more details.

Access to Your HSA Account

Access your account online at www.anchornetbank.com or through the Tideline (*800-562-9744) to*:

- See your account summary
- Review transaction activity
- Initiate transfers
- Activate your HSA Debit Card

Employer Participation

This section contains the rules that employers must follow if they decide to make HSAs available to their employees. Unlike the previous discussions, "you" refers to the employer and not to the employee.

Health plan. If you want your employees to be able to have an HSA, they must have an HDHP. You can provide no additional coverage other than dental, vision, disability, and long-term care insurance that pays medical bills.

Contributions. You can make contributions to your employees' HSAs. You deduct the contributions on the "Employee benefit programs" line of your business income tax return for the year in which you make the contributions. If you are filing Form 1040, Schedule C, this is Part II, line 14.

Comparable contributions. If you decide to make contributions, you must make comparable contributions to all comparable participating employees' HSAs. Your contributions are comparable if they are either:

- The same amount, or
- The same percentage of the annual deductible limit under the HDHP covering the employees.

Comparable participating employees*.* Comparable participating employees:

- Are covered by your HDHP and are eligible to establish an HSA,
- Have the same category of coverage (either self-only or family coverage), and
- Have the same category of employment (part-time, full-time, or former employees).

Employment taxes. Amounts you contribute to your employees' HSAs are generally not subject to employment taxes. You must report the contributions in box 12 of the Form W-2 you file for each employee. This includes the amounts the employee elected to contribute through a cafeteria plan. Enter code “W” in box 12.

Anchor Bank HSA Account Fees:

Interest rates are paid on the following tiers. See rate sheet for current rates.

$1 to $999	
$1,000 to $4,999	
$5,000 to $9,099	
$10,000 to $14,999	
$15,000 and greater	

Opening amount	$50.00
Minimum deposit	$10.00
Minimum balance	$50.00
Set-up fee *	$15.00
Account closure fee	$20.00
Check fees	$.50 per check
Debit fees	None
Statement	Monthly

*Set-up fee is waived if primary active checking is opened with direct deposit to HSA account.

Monthly Fee: If daily balance drops below $1000, a monthly fee will be assessed. Waived for first twelve months.

1) When an employee makes a monthly Totalmatic contribution of $25 or more from their Anchor Xtreme Plus checking account to their HSA account, they will get an additional .50% rate increase.

2) When an employer makes a monthly contribution of $50 or more a month to 5 or more employee HSA accounts, they will earn an additional .125% (1/8 percent) to the earnings credit on their Business Analysis account, and if they make a monthly contribution of $50 or more to 20 or more employee HSA accounts, they will earn an additional .250% (1/4 percent) to the earnings credit on their Business Analysis account.

*The primary source of information for this document was the IRS Publication 969. However, the HSA content in this document is for informational purposes only. For additional information you should refer to the IRS Publication 969 or consult your tax professional.