VILLAGE OF FREEBURG

FREEBURG MUNICIPAL CENTER
14 SOUTHGATE CENTER, FREEBURG, IL 62243
PHONE: (618) 539-5545 • FAX: (618) 539-5590
Web Site: www.freeburg.com

April 7, 2008

NOTICE

MEETING OF PERSONNEL & PUBLIC SAFETY COMMITTEE
(Personnel/Police/ESDA/Fire)
(Baker/Smith/Mattern)

A Personnel and Public Safety Committee Meeting of the Village of Freeburg will be held at the Municipal Center, Executive Board Room, **Wednesday, April 9, 2008, at 6:30 p.m.**

PERSONNEL AND PUBLIC SAFETY COMMITTEE MEETING

I. Items to be Reviewed

POLICE COMMITTEE:

A. Old Business
B. New Business
   1. 2008 Dispatching Contract
   2. SILEC Assist #14 Partnership Contribution
   3. Sugar Creek sign and speed limit requests
   4. Budget review

PERSONNEL COMMITTEE:

A. Old Business
   1. Approval of 3/11/08 minutes
   2. Probation Period - update of ordinance
   3. Health insurance renewal - HRA plan
   4. Public works department employees' requests
   5. Sexual harassment training

B. New Business
   1. Budget review

C. General Concerns

D. Public Participation

E. Adjourn

At said Personnel Meeting, the Village Trustees may vote on whether or not to hold an Executive Session to discuss the selection of a person to fill a public office [5 ILCS, 120/2 – (c) (3)], litigation [5 ILCS, 120/2 - (c)(11)] personnel [5 ILCS, 120/2 – (c) (1) a.]; or real estate transactions [5 ILCS, 120/2 - (c)(5)].

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PERSONNEL AND PUBLIC SAFETY COMMITTEE MEETING
Wednesday, April 9, 2008 at 6:30 p.m.

Chairperson Rita Baker called the meeting of the Personnel and Public Safety to order on Wednesday, April 9, 2008 at 6:31 p.m. Those present were Chairperson Rita Baker, Trustee Steve Smith, Trustee Charlie Mattern, Mayor Ray Danford, Administrator Dennis Herzing, Chief Mel Woodruff and Office Manager Julie Polson.

POLICE DEPARTMENT:

A. OLD BUSINESS: Mel reported that Dave Unverferth will be going off probation tomorrow and has completed same successfully.

B. NEW BUSINESS:

1. 2008 Dispatching Contract: Mel advised it is time for our annual renewal of our dispatching contract at a cost of $20,946.36. The payments will be paid, half before July 1, 2008 and the remainder due no later than December 1, 2008. *Trustee Steve Smith motioned to recommend to the full Board the 2008 Dispatching Contract be renewed at a cost of $20,946.36 and Trustee Charlie Mattern seconded the motion.* All voting aye, the motion carried.

2. SILEC Assist #14 Partnership Contribution: Mel advised this is our annual training fees which have been raised from $75 per officer to $85 per officer. *Trustee Steve Smith motioned to recommend the 2008 fees for the SILEC Assist #14 Partnership Contribution be paid at a cost of $850.00 and Trustee Charlie Mattern seconded the motion.* All voting aye, the motion carried.

3. Sugar Creek sign and speed limit requests: Mel was not aware of this request until he heard about it in the board meeting Monday night. This was previously discussed in the Street Committee and they forwarded it onto the Police committee. Sugar Creek Homeowners Association is requesting a reduction in the speed limit from 30 mph to 25 mph and also installation of children playing signs. Mel said a reduction in the speed limit would not affect the enforcement out there. Mel said he prefers the 30 mph to be posted and be able to enforce that. The committee agreed to post 3 children playing signs in appropriate places.

4. Budget review: Mel reviewed his budget and advised the major change to the police budget was the reduction in salary. Mel said the money has been allocated the past couple of years for adding an additional officer. A supplemental appropriation might need to be done if we do hire another officer. The committee requested a separate line item for the Megsi grant which is currently under 01-21-539. Steve questioned if we could purchase our gasoline in bulk from the state and Dennis advised he is not aware of any program to do that. Mel commented that this had been looked into in the past but was not economically feasible to do it especially with the EPA issues.

PERSONNEL COMMITTEE:

A. OLD BUSINESS:

1. Approval of March 11, 2008 minutes: *Trustee Charlie Mattern motioned to approve the March 11, 2008 minutes and Trustee Steve Smith seconded the motion.* All voting aye, the motion carried.

2. Probation Period: Dennis provided a draft ordinance for this. Basically, it would provide for a person being hired on a probationary level at $1.00 per hour less and at the end of probation, the person would receive $1.00 per raise. If the probation period falls during a raise, the person would receive the raise at the end of their probation period. This would apply to hourly positions only. Charlie recommended the word salary be replaced with rate. Charlie asked if we need to have different ordinances for salaried positions and hourly positions. Section 32.03 will be copied to the trustees. Dennis will get the ordinance revised.

3. Health insurance renewal: Charlie asked if the relative coverage the same between the renewal quotes provided by UHC and Julie replied yes, the coverage is the same. Julie advised she had received several quotes from Insurance Planning today but has not had a chance to prepare a spreadsheet yet. The information they provided did not have all of the information required to make an informed decision, i.e. family deductibles. Rita asked with regard to the HSA account, a certain amount would be put into an account every year. Dennis replied yes and that amount could be changed from year to year. Julie said copies of the HSA informational packets were put in the committee packets for today's meeting. The committee then discussed the issue of capping the reimbursement dollar amounts. Dennis said it would be more fair to cap the reimbursable amounts by percentage, i.e. 80% of 2,000 and 80% of 6,000. With the spreadsheet presented, it looks like with the increase in deductions, the savings in the premium becomes very little. Dennis said the issue is do we want to make this a firm cap or use it as a budgeting tool. Steve said the reality is we can't keep paying both 100% of the premium and 100% of the reimbursements. Realistically, we are now looking at insurance rates and plans for next year. We will check with surrounding communities to see what their insurance plans are.

4. Public works department employees' requests: From the previous discussion, the committee decided no to the additional personal day and the assurance of 100% paid health insurance after retirement. Ray said he and Dennis talked about the clothing allowance stating if there are OSHA requirements or safety standards we need to meet, we should make up a list of mandatory required items that we provide to the employees, i.e. safety-toed boots, flame retardant clothing. We need to research with Ron to see how much is being spent and on what is being spent. A clothing allowance should not be used on items that we already provide. Ray thinks it would be a good idea to increase the accumulated sick leave to 240 days. IMRF allows up to the 240 days to be added on as service time after retirement. The employee would still have to earn the days which would equal 20 years. The committee agreed the accumulation of 240 unpaid sick days was a good idea. Items will be discussed in the next finance meeting on April 16, 2008.

5. Sexual harassment training: Julie is still trying to find out if IML conducts any training like this and talked about providing to all employees as well as managers.

6. Steve brought up the employee ID badges and Dennis advised we are still working on this.

B. NEW BUSINESS:

1. <u>Budget review:</u> Nothing other than Dennis stating he added a line item for the interfund transfer from the Police Department to ESDA.

C. GENERAL CONCERNS: None.

D. PUBLIC PARTICIPATION: None.

ADJOURN: *Trustee Steve Smith motioned to adjourn at 8:30 p.m. and Trustee Charlie Mattern seconded the motion.* All voting aye, motion carried.

Julie Polson

Julie Polson,
Office Manager

ST. CLAIR COUNTY BOARD

10 Public Square • Room B561 • Belleville, Illinois 62220-1623

MARK A. KERN
CHAIRMAN

(618) 277-6600
Fax (618) 825-2740

March 20, 2008

Chief Melvin Woodruff
Village of Freeburg (Police Dept.)
14 Southgate Center
Freeburg, IL 62243

Dear Chief Woodruff:

Please find enclosed the dispatching contract and contract amount for 2008. St. Clair County has increased the dispatching cost to $8.50 per transaction. This is still less than providing dispatch services. If you have any questions concerning the charge amount, please feel free to contact Mr. Knight at EMA. As in previous years, the charges are based upon total usage during the previous year (2007). The new contract amount is retroactive to January 2008.

Additionally, the contract, as in previous years, requires St. Clair County, the St. Clair County Public Building Commission, St. Clair County Central Dispatch PSAP (Cencom) and the Emergency Telephone System Board (ETSB) to be named as additionally insured. Please forward the insurance documentation outlined in the contract, to the St. Clair County Insurance Office, 10 Public Sq., Belleville, Illinois, 62220. The Mayor, Village President or Board President must sign both contracts and mail one original back to the St. Clair County Auditor's Office, 10 Public Square, Belleville, Illinois, 62220.

While the contract does allow for a negotiated payment schedule, you must notify the Auditor's Office of the billing schedule you have chosen. However, half of the contract amount must be paid by July 1, 2008, and the final amount must be paid in full by December 31, 2008. No contract will be finalized until all previous years payments are paid in full or arrangements are made otherwise. Unlike previous years, communities and service providers who have 9-1-1 call forwarded, will be charged a minimum amount. The 9-1-1 Board will reimburse you for these charges based upon proof of payment to the County. The EMA Office will work with any community or service provider who wishes not to use the County dispatching service during 2008 and an orderly transfer of responsibility will be negotiated.

Please notify Mr. Knight at (618/277-3012) immediately if you have decided not to use the County Dispatching Service or if you have any questions.

Sincerely,

Daniel L. Maher

DANIEL L. MAHER
Director of Administration

DLM/jj
Enclosures
(2008 Invoice & 2 Contracts)

St. Clair County

Patty Sprague, Auditor
#10 Public Square
Belleville, IL 62220

Invoice

Date	Invoice #
3/13/2008	140

Bill To
Chief Melvin Woodruff Village of Freeburg Police 14 Southgate Center Freeburg, IL 62243

Description	Amount
911 calls from 2007 billed in 2008	20,782.50
LEADS	163.86
Total	$20,946.36

ST. CLAIR COUNTY, ILLINOIS
COORDINATED COMMUNICATIONS SERVICES CONTRACT

THIS AGREEMENT, made and entered into this **1st day of January 2008**, by and between ST. CLAIR COUNTY, ILLINOIS, hereinafter referred to as COUNTY, and **FREEBURG POLICE DEPARTMENT**, located in St. Clair County, Illinois, hereinafter referred to as SERVICE RECIPIENT.

WHEREAS, COUNTY holds a license from the Federal Communications Commission and there under operates radio stations in the performance of its duties of law enforcement, and has offered to perform certain communications services for various cities, villages, municipalities, fire districts, fire departments, EMS departments, EMS districts, federal agencies, and county agencies;

WHEREAS, the **SERVICE RECIPIENT** wishes to avail itself of the 9-1-1 and various communications services offered by St. Clair County, including telephone, radio, paging, and computerized criminal history services (REJIS & LEADS) and other services. (REJIS & LEADS services will apply to law enforcement agencies only);

WHEREAS, the **SERVICE RECIPIENT** now owns certain communications equipment which it desires to use in connection therewith;

WHEREAS, the **SERVICE RECIPIENT** has on file with the St. Clair County Emergency Telephone System Board a valid inter-agency agreement for 9-1-1 services and will continue to maintain such agreement for the duration of this agreement;

NOW, THEREFORE, this Agreement has been entered into by the undersigned in order to accomplish the aforementioned purposes.

1) COUNTY shall provide 9-1-1 and non-emergency telephone call processing, radio dispatching, and paging services to and from the **SERVICE RECIPIENT'S** telephones, radios, and pagers.

2) COUNTY shall perform the services provided for in this Contract in compliance with the standards of St. Clair County Government, the Emergency Telephone System Act, ETSB Interagency Agreements, and all applicable laws.

3) The **SERVICE RECIPIENT** shall furnish to St. Clair County during the month of April, **2008** and more frequently if required by FCC regulations or by St. Clair County, the frequency measurements of all radio equipment owned or used by the **SERVICE RECIPIENT** in conjunction with this contract. Such measurements are to be made by an entity licensed to make such measurements.

4) The **SERVICE RECIPIENT** shall comply with all regulations set by the FCC and those rules and regulations set by the St. Clair County ETSB (pertaining to 9-1-1 services) and St. Clair County Government.

5) The **SERVICE RECIPIENT** shall pay St. Clair County the sum of ***$20,946.36*** for communications services to be performed by St. Clair County as set forth in paragraph (1) of this Contract. A payment schedule, mutually agreed to by the parties, may be established with St. Clair County Government for payment of these fees; however, no less than 50% of the annual fees shall be payable no later than **JULY 1, 2008**, with the remaining 50% due and payable no later than **DECEMBER 1, 2008**.

Charges for law enforcement agencies will include each law enforcement agency's proportionate share of REJIS and LEADS charges.

6) The **SERVICE RECIPIENT** shall pay for all St. Clair County telephone system costs incurred by the **SERVICE RECIPIENT** in changing to and/or from COUNTY'S coordinated communications services.

7) The **SERVICE RECIPIENT** shall provide an errors and omissions insurance policy underwritten by an insurance company, and in a form acceptable to St. Clair County, in the amount of not less than $1,000,000 per occurrence. St. Clair County Public Building Commission, St. Clair County Central Dispatch PSAP (CENCOM), and St. Clair County Emergency Telephone System Board (ETSB), and their employees, elected and appointed officials, contractors, consultants and volunteers, shall be included as "Additional Insured" in this policy. Coverage under this insurance policy shall extend to the negligence, wrongful act, error, omission, breach of duty, or other act committed by a Service Recipient employee, elected or appointed official, volunteer, service contractor, or consultant, which may give rise to any of the "Additional Insured" being named as a defendant in any legal action related to services performed under this Contact.

In the event a "deductible" is applied under said insurance policy to claim expense or damages against an "Additional Insured," Service Recipient shall pay the full amount of deductible applied, on behalf of the "Additional Insured."

In the event said insurance policy does not respond to any such legal action against an "Additional Insured," or should such legal action include a claim for "willful or wanton misconduct, or other uninsured claim", Service Recipient shall hold St. Clair County (and any of the Additional Insured) harmless, and shall, at its own expense, defend and protect them from any expense or loss not covered by Service Recipient's insurance policy.

8) This Coordinated Communications Services Contract may be terminated by either party hereto upon ninety (90) days written notice to the other party and upon approval of the St. Clair County ETSB in accordance with the St. Clair County 9-1-1 Plan.

9) This Coordinated Communications Services Contract may be terminated

immediately upon written notice by the County if the premises, facilities, and/or equipment used by the County in fulfillment of the Service provisions of this contract are substantially destroyed or damaged through no fault of the County. If the County elects to continue this agreement and re-construct or repair the damaged premises, facilities, or equipment, then the County is not required to provide such services that are the subject of the contract until the premises, facilities, or equipment are restored to the condition existing immediately prior to such damage or destruction.

10) Upon termination of this Contract for any reason, the **SERVICE RECIPIENT** shall within ten (10) days remove all radio crystals or programming from its radio equipment so that said equipment will no longer be capable of transmitting on any frequencies licensed to St. Clair County by the F.C.C. This shall not apply to those frequencies licensed by the F.C.C. to the **SERVICE RECIPIENT**.

11) This Contract shall take effect on the **1st day of January, 2008** and shall expire on the **31st day of December, 2008**. The **SERVICE RECIPIENT** shall give COUNTY ninety (90) days written notice prior to the expiration of this Contract if the **SERVICE RECIPIENT** will not execute a similar communications services contract for the succeeding year. If the **SERVICE RECIPIENT** fails to provide the required notice, St. Clair County will not be obligated to renew said contract for the succeeding year, but may choose to do so at the sole option of the County.

ACCEPTED:

Service Recipient	**St. Clair County, Illinois**
By________________________	By________________________
Title: Mayor/Board President	Title: County Board Chairman
Date______________________	Date______________________

SOUTHWESTERN ILLINOIS LAW ENFORCEMENT COMMISSION

Mobile Team ASSIST #14

Second Floor
St. Clair County Jail Building
www.silec.org

618 / 277-1550
Fax: 618 / 277-1553

700 North Fifth Street
Belleville, Illinois 62221
e-mail: office@silec.org

received 3/24/08

March 14, 2008

TO ALL PARTNERSHIP AGENCIES IN THE SILEC ASSIST #14 REGION

Dear Law Enforcement Leaders:

This letter will serve as your annual **ASSIST #14 Partnership Contribution Invoice for FY'2009.** (July 1, 2008 – June 30, 2009)

All full time/part time officers and telecommunicators are to be included. All officers who are, or, who will be certified in FY'2009 are also to be included in the partnership. **The cost is $85.00 per person**. This contribution will allow SILEC to continue to offer high dollar courses without charging tuition costs for individual courses.

The Partnership Committee is currently planning another great year for Partnership Training. **Please complete the attached invoice and submit your check made payable to: SILEC – Southwestern Illinois Law Enforcement Commission**

Mail to: 700 North 5th Street
Belleville, IL 62220

Thanks for your continued support of the ASSIST #14 Project.

Sincerely,

Roger A. Richards

Roger A. Richards
Director

RAR/skb

SOUTHWESTERN ILLINOIS LAW ENFORCEMENT COMMISSION

INVOICE# 2009-64

DATE: March 14, 2008

_______**Freeburg**________________Police Department training assessment for

FY'2009 - (July 1, 2008 – June 30, 2009)

#_10____full/part-time officers and

#__________telecommunicators @ **$85.00** per person.

TOTAL ---$ 850.00

Please make check payable to the: **Southwestern Illinois Law Enforcement Commission (SILEC), 700 North 5th Street, Belleville, IL 62220**

March 17, 2008

Sugar Creek Homeowners Assoc.
3790 Sugar Lake Dr
Freeburg, IL 62243

Village of Freeburg
Public Works Department
Zoning Committee

The members of Sugar Creek Homeowners Association would like to request a reduction in the speed limit of our subdivision from 30 mph to 25 mph. We would also like to have this limit posted in our subdivision. If possible we would like to see the speed limit signs somewhere close to the boat launch and also close to the lot east of 3500 Sugar Lake Drive. We would also like to have a "Children Playing" sign or some similar sign posted on both speed limit signs.

Please let us know if you need any other information.

Sincerely,

Terry Borrenpohl

Terry Borrenpohl

G/L NUMBER	G/L TITLE	2 YEARS AGO 06	LAST YR 07	CURRENT YR 08	08 BUDGET	PROJECTED CY	NEW 09 BUDGET
01	GENERAL FUND						
POLICE DEPARTMENT							
01-21-396	PD TOBACCO COMPLIANCE GRANT	.00	.00	.00	.00		
01-21-421	PD REGULAR SALARIES	373113.72	387245.03	411429.63	431500.00	411500.00	450000.00
01-21-422	PD OVERTIME	24905.41	31665.03	34659.42	15000.00	35600.00	15000.00
01-21-423	PD HOLIDAY OVERTIME	12236.94	12370.91	15284.30	10000.00	15284.00	16500.00
01-21-425	PD PART-TIME SALARIES	11071.12	11280.50	13896.00	6000.00	14000.00	6000.00
01-21-426	PD LONGEVITY/EDUCATION	.00	4861.02	5711.67	6750.00	5710.00	6750.00
01-21-451	PD HEALTH INSURANCE	76361.94	123242.00	90178.23	80000.00	92000.00	111560.00
01-21-452	PD LIFE INSURANCE	533.25	802.79	.00	700.00		
01-21-453	PD UNEMPLOYMENT INSURANCE	1519.39	1492.98	3098.85	2000.00	2200.00	2650.00
01-21-454	PD WORKERS COMPENSATION	10329.20	12320.56	14086.52	13500.00	17500.00	19171.00
01-21-461	PD SOCIAL SECURITY	32215.22	26391.52	38410.61	36000.00	38411.00	37900.00
01-21-462	PD RETIREMENT	41389.20	51198.16	45393.12	55000.00	45400.00	52200.00
01-21-463	PD MEDICARE	.00	8053.52	.00	.00		
01-21-471	PD UNIFORM ALLOWANCE	6067.16	6005.75	7355.75	7000.00	7356.00	6500.00
01-21-473	PD LONGEVITY/EDUCATION	3991.72	.00	.00	.00		
01-21-511	PD MAINT BUILDING	2792.00	358.50	320.42	400.00	350.00	400.00
01-21-512	PD SERVICES, EQUIPMT	1534.19	1440.36	1168.81	1500.00	1200.00	1500.00
01-21-513	PD SERVICES, VEHICLE	8194.08	7986.08	11035.74	9000.00	11036.00	11000.00
01-21-531	PD ACCOUNTING	.00	.00	.00	.00		
01-21-532	PD ENGINEERING	.00	.00	.00	.00		
01-21-533	PD LEGAL	390.00	1000.00	5000.00	5000.00	5000.00	5000.00
01-21-534	PD MEDICAL	13773.54	23283.40	37728.14	54000.00	40000.00	58000.00
01-21-536	PD JANITORIAL	2811.70	2732.30	1351.97	500.00	1352.00	500.00
01-21-537	PD DATA PROCESSING	.00	.00	.00	.00		
01-21-538	PD DISPATCHING SERVICE	21068.00	20274.29	19639.02	21000.00	21000.00	21000.00

G/L NUMBER	G/L TITLE	2 YEARS AGO 06	LAST YR 07	CURRENT YR 08	08 BUDGET	PROJECTED CY	NEW 09 BUDGET
01	GENERAL FUND						
POLICE DEPARTMENT							
01-21-539	PD OTHER PROF SERVICES	4596.86	4244.72	9157.91	9000.00	9000.00	9000.00
01-21-551	PD POSTAGE	536.93	217.25	94.15	200.00	100.00	200.00
01-21-552	PD TELEPHONE	4588.33	5779.35	6815.35	7000.00	6500.00	7000.00
01-21-553	PD PUBLISHING,ADVERTMT	.00	131.68	22.20	150.00	30.00	
01-21-554	PD PRINTING, COPYING	589.34	303.30	685.29	500.00	685.00	500.00
01-21-559	PD OTHER COMMUNICATIONS	222.91	183.35	.00	.00		
01-21-561	PD DUES	1405.00	1385.00	1675.00	1500.00	1700.00	1800.00
01-21-562	PD TRAVEL EXPENSE	.00	.00	.00	.00		
01-21-563	PD TRAINING	1397.81	1595.96	781.81	1600.00	1000.00	1100.00
01-21-564	PD TUITION REIMBURSE	.00	.00	4159.50	6000.00	4500.00	6000.00
01-21-565	PD PUBLICATIONS	.00	.00	.00	.00		
01-21-571	PD UTILITIES	3329.53	4033.47	3841.58	3800.00	3500.00	4000.00
01-21-591	PD LIABILITY INSURANCE	10999.52	678.16	.00	750.00		900.00
01-21-592	PD GENERAL INSURANCE	846.72	7194.18	7680.26	7800.00	7680.00	9567.00
01-21-593	PD RENTALS	.00	.00	.00	.00		
01-21-611	PD SUPPLIES, BUILDING	.00	248.07	287.35	250.00	300.00	300.00
01-21-612	PD SUPPLIES, EQUIPMT	309.74	868.23	521.58	1000.00	250.00	1000.00
01-21-613	PD SUPPLIES, VEHICLE	441.63	151.59	603.70	500.00	750.00	1000.00
01-21-651	PD OFFICE SUPPLIES	1505.74	2185.54	1817.46	2000.00	1800.00	2000.00
01-21-652	PD OPERATING SUPPLIES	1446.45	1507.84	1429.26	1500.00	1500.00	1500.00
01-21-653	PD SMALL TOOLS	.00	.00	.00	.00		
01-21-654	PD JANITORIAL	.00	.00	84.34	200.00	100.00	200.00
01-21-655	PD AUTO FUEL/OIL	21033.99	21506.21	28644.01	22000.00	28644.00	32000.00
01-21-656	PD CHEMICALS	.00	.00	.00	.00		
01-21-659	PD OTHER GEN SUPPLIES	.00	.00	.00	.00		

G/L NUMBER	G/L TITLE	2 YEARS AGO 06	LAST YR 07	CURRENT YR 08	08 BUDGET	PROJECTED CY	NEW 09 BUDGET
01	GENERAL FUND						
POLICE DEPARTMENT							
01-21-670	PD POLICE CANINE	826.15	486.93	227.81	.00	228.00	
01-21-831	PD OFFICE EQUIPMT (COPIER)	.00	996.79	993.00	1000.00	993.00	1500.00
01-21-832	PD COMPUTER/CAR/GRANT	.00	.00	.00	.00		
01-21-833	PD PROTECTIVE VESTS	309.00	.00	.00	1000.00		
01-21-834	PD COMPUTER SOFTWARE	.00	941.49	.00	1000.00		1000.00
01-21-835	PD TOBACCO COMPLIANCE GRANT	1030.76	673.11	55.00	700.00	50.00	
01-21-836	PD DEFIBULATOR	.00	1338.95	.00	.00		
01-21-837	PD COUNTY RADIOS	.00	.00	.00	.00		13450.00
01-21-838	PD OPTICON EQUIP	.00	.00	.00	.00		
01-21-841	PD VEHICLES	18567.89	38749.45	21406.08	20000.00	21406.00	19000.00
01-21-872	PD CARPET	.00	.00	.00	.00		
01-21-891	PD VEHICLE CARPORT	.00	.00	.00	.00		
01-21-951	PD DEPRECIATION	.00	.00	.00	.00		
01-21-959	PD INTERFUND TRANSFER (ESDA)	.00	.00	.00	.00		2150.00

TOTALS FOR DEPARTMENT: 21
EXPENSE BUDGET YEAR 09 936,798.00
EXPENSE PROJ 855,615.00

G/L NUMBER	G/L TITLE	2 YEARS AGO 06	LAST YR 07	CURRENT YR 08	08 BUDGET	PROJECTED CY	NEW 09 BUDGET
01	GENERAL FUND						
01-40-500	PD BOND EXPENSE	.00	.00	.00	.00	___________	___________

VILLAGE OF FREEBURG

FREEBURG MUNICIPAL CENTER
14 SOUTHGATE CENTER, FREEBURG, IL 62243
PHONE: (618) 539-5545 • FAX: (618) 539-5590
Web Site: www.freeburg.com

PERSONNEL AND PUBLIC SAFETY COMMITTEE MEETING
Tuesday, March 11, 2008 at 6:30 p.m.

Chairperson Rita Baker called the meeting of the Personnel and Public Safety to order on Tuesday, March 11, 2008 at 6:45 p.m. Those present were Chairperson Rita Baker, Trustee Steve Smith, Trustee Charlie Mattern, Mayor Ray Danford (came in late), Administrator Dennis Herzing, Chief Mel Woodruff and Office Manager Julie Polson. Guests Present: Greg Toensing and Joe Meyer of United Healthcare and Janet Baechle.

PERSONNEL COMMITTEE:

Chairperson Baker asked for Item number 3 under Old Business, Health insurance renewal, to be addressed first. Greg Toensing gave a brief summary of our renewal with United Healthcare. Our premium had increased approximately 24% from \$19,000 to \$23,000. At that time, Julie and Dennis requested Greg to provide quotes from other companies. After the employees completed applications, it was determined that United Heathcare is very competitive with the other companies and the Village decided to stay with United Healthcare. As part of their renewal package, United Healthcare provided information about two additional benefits available, the HRA (Health Reimbursement Arrangement and the HSA (Health Savings Account). Joe gave a detailed explanation of both plans. With the HRA, United Healthcare would be considered a third-party administrator. The employer would be responsible for determining the amount they wish to contribute to the plan. It is a way to reimburse the employee for eligible medical related expenses on a nontaxable basis. Qualified medical expenses would be submitted to UHC and would be automatically processed by them. The employee would not have the option to pick and choose what bills they would want reimbursed if they are on the automatic system. The manual system allows the employee to submit bills by fax or mail.

The HSA program differs in that the federal government caps the employer's contribution to these accounts of \$2,900 for an individual and \$5,800 for family. This plan's family deductible is non-embedded meaning an individual has to meet the \$6,000 deductible before their medical expenses are reimbursable. The Village would contribute a yearly amount and that money belongs to the employee. If the money in that account is not used, it rolls over from year to year on a tax-deferred basis. After retirement, that money can be used for long-term living expenses, medical expenses, etc. Another advantage to the HSA account is the individual can also contribute money to that account. Joe also said another option we could offer is a dual option plan meaning the employee could choose which plan they want to be on, be it our current healthcare coverage or possibly a HSA plan.

Dennis asked Greg to gather more information about the HSA plan as that is the plan that we are most interested in. Greg will compile that information and get it to us.

POLICE DEPARTMENT:

A. OLD BUSINESS:

1. Public safety notices via email: Dennis advised that Jean has been working on this and only needs a general disclaimer to put on the website. We will also put on the disclaimer that we won't be responsible if the website is not up. The committee decided to make the name and address optional information and only the email address a required field.

Mel provided a copy of his commendation for Sergeant Burrows on the Ashley Reeves investigation. Mel advised he had nothing new to report on the stop signs on Belleville Street other than the school has rerouted three buses and that has helped with the congestion. Chairperson Baker said she talked to Dr. Hawkins who says the bus drivers are very happy with the stop signs.

B. NEW BUSINESS:

Mel said he had no new business but if anyone had any questions about the budget, he would be happy to address them. He said his biggest issue with the budget is the salaries, it is over because of the part-time and overtime expenses. He said there is money placed in the budget each year to replace one of the older police cars. He has a 2003 Impala with over 131,000 miles. He also has one Crown Vic still in service, a 1998, that will probably last one more year. Dennis said we try to keep a car in the budget every year because we don't want to have to purchase more than 1 in any year. Trustee Smith asked Mel what his thoughts were on the 2011 expansion of the municipal center. Mel said he is out of space now but not desperate yet. He would like to work together with the administrative side on the growth issue.

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A. OLD BUSINESS:

1. Approval of February 13, 2008 minutes: *Trustee Steve Smith motioned to approve the February 13, 2008 minutes and Trustee Charlie Mattern seconded the motion.* All voting aye, the motion carried.

2. Probation Period: Nothing new.

3. Health insurance renewal: Dennis said the HRA plan is not worth it for us because we already have a system in place which is working quite well. We will get a HIPPA form to all the employees for their execution. Charlie requested other renewal options from United Healthcare. Julie will get that information to the trustees.

B. NEW BUSINESS:

The public works department employees submitted their annual request, a copy of which is attached. Their requests include: 1. an increase of accumulated sick days to a total of 240 days (this would allow the retiring employees to be able to take advantage of IMRF's unpaid sick leave credit plan); 2. increase clothing allowance to $200.00; 3. additional personal day; and 4. assurance

that they would get 100% paid health insurance after retirement (retirement meaning those individuals with no less than 20 years of service). Dennis explained that IMRF limits the amount of sick days to 240 days which equals one year. You cannot use your accumulated sick time to get to your 8 years of service. Charlie asked if this would be an expense to the Village. It could if you have an employee get sick and actually use up those days instead of banking them. After much discussion by the committee, they decided not to make a decision on this request. Ron explained the clothing allowance was used to purchase boots, coveralls, etc. Ron needs to look into the issue of steel-toed safety boots being a requirement by the Department of Labor. The committee agreed not to grant requests number 3 and 4.

C. GENERAL CONCERNS: None.

D. PUBLIC PARTICIPATION: None.

ADJOURN: *Trustee Charlie Mattern motioned to adjourn at 8:52 p.m. and Trustee Steve Smith seconded the motion.* All voting aye, motion carried.

Julie Polson

Julie Polson,
Office Manager

ORDINANCE NO. _______

AN ORDINANCE AMENDING TITLE III, CHAPTER 32 OF THE REVISED CODE OF THE VILLAGE OF FREEBURG, ST. CLAIR COUNTY, ILLINOIS (Personnel Policies)

BE IT ORDAINED BY THE VILLAGE PRESIDENT AND VILLAGE BOARD OF TRUSTEES OF THE VILLAGE OF FREEBURG, ST. CLAIR COUNTY, ILLINOIS, THAT:

TITLE III, CHAPTER 32, Section 32.03 EMPLOYMENT, Paragraph (B) is hereby amended to read as follows:

(B) After employment, the first 60 calendar days of employment shall be considered a probationary period. ~~Salary~~ the hourly rate during the probationary period shall be $1.00 less per hour than the prevailing rate for the position.

(1) An employee who is in his or her probationary period when an annual ~~salary~~ rate adjustment otherwise applicable to his or her position takes effect shall not receive such adjustment until the completion of the probationary period. At the completion of the probationary period the employee's ~~salary~~ rate shall be increased by first eliminating the $1.00 per hour probationary reduction and then by applying the percentage increase applicable to his or her position.

PASSED BY THE VILLAGE BOARD OF THE VILLAGE OF FREEBURG, ILLINOIS, ST. CLAIR COUNTY, AND APPROVED BY THE VILLAGE PRESIDENT THIS

_______ DAY OF APRIL, 2008.

AYES ____________________ NAYS ____________________

____________________ ____________________

____________________ ____________________

____________________ ____________________

____________________ ____________________

____________________ ____________________

ABSENT ____________________ ABSTAIN ____________________

____
Jerry Menard, Village Clerk

Approved this ______ day of ____________________, 2008

____
Raymond S. Danford, Village President

ATTEST:

____
Jerry Menard, Village Clerk

Approval as to Legal Form:

____
Stephen R. Wigginton, Village Attorney

____

	2007 Premium	2008 Renewal	Alternate 1	Alternate 2
In Network	($2000/$6000)	($2000/$6000)	($2000/$6000)	($2500/$7500)
Out of Network	($4000/$12000)	($4000/$12000)	($4000/$12000)	($5000/$15000)
Co-Insurance	(100%/80%)	(100%/80%)	(90%/70%)	(80%/60%)
Prescriptions	$10/$35/$60	$10/$35/$60	$10/$35/$60	$$10/$35/$60
Monthly prem.	$19,140	$22,883	$22,394	$20,890
	x 12	x 12	x 12	x 12
Annual prem.	$229,680	$274,596	$268,728	$250,680
	$229,680	$274,596	$268,728	$231,336
Max. Reimb.	+151,600	+151,600	+151,600	+188,600
Grand Total	$381,280	$426,196	$420,328	$419,936

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	Alternate 3	Alternate 4	Alternate 5
In Network	($3000/$9000)	($5000/$15,000)	($2000/$4000)
Out of Network	($6000/$18000)	($7500/$22500)	($4000/$8000)
Co-Insurance	(80%/60%)	(90%/70%)	(100%/80%)
Prescriptions	$10/$35/$60	$10/$35/$60	$10/$30/$50
Monthly prem.	$20,158	$18,301	$27,494
	x 12	x 12	x 12
Annual prem.	$241,896	$219,612	$329,928
	$241,896	$219,612	$329,928
Max. Reimb.	+225,600	+373,600	+113,600
Grand Total	$467,496	$593,212	$443,528

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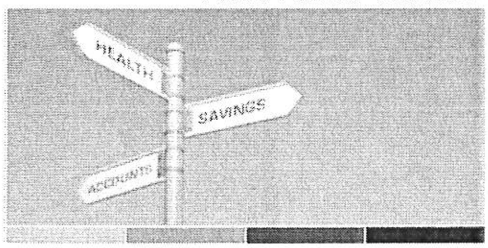
	Max exposure	Amount Spent	Difference
2006	$ 77,720.00	$50,159.57	$27,560.43
2007	$153,720.00	$98,212.48	$55,507.52
2008	$151,600.00		

HSA INSIDER

a division of Canopy Financial

HSA ROAD RULES



HSA Road Rules for Employers
Sixth Edition, January 2008

Table of Contents

Introduction to Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is like a 401(k) for healthcare. It is a tax-advantaged personal savings or investment account that your employees can use to save and pay for qualified health expenses, now or in the future. Paired with a qualified high deductible health plan (HDHP), an HSA is a powerful financial tool that empowers your employees to be more actively involved in their health care decisions.

Unlike other financial savings vehicles (Roth IRA, Traditional IRA, 401K, etc.), an HSA has the unique potential to offer your employees triple tax savings through:

- ✓ Pre-tax or tax-deductible contributions to the HSA
- ✓ Tax-free interest or investment earnings
- ✓ Tax-free distributions, when used for qualified medical expenses

Contributions to the HSA can be made by the employer, the employee, or both. Tax-free withdrawals can be made by the employee to pay for qualified medical expenses incurred by the accountholder, spouse, children and other dependents.

HSA-eligible health plans reduce healthcare costs for U.S. businesses dramatically, with some studies citing a 20-30% lower cost than average premiums (*AHIP HSAs and Account-Based Health Plans,* June 2006). Sharing a portion of these premium savings with your employees through a recurring, employer contribution to their HSAs greatly increases the likelihood that a higher percentage of your employees will adopt the company's HSA plan—which can add up to big premium savings for your company. This practice allows the employer to recognize significant cost savings while reducing the out-of-pocket healthcare cost risk for the employee.

HSAs are also portable, which means that your employees keep their HSAs, if the change jobs or become unemployed—another incentive to encourage your employees to adopt your lower-cost HSA plan. There is also no "use-it-or-lose-it" provision, like with a Flexible Spending Account (FSA).

Instead, unused contributions roll over each year, with interest and/or investment earnings compounding on a tax-free basis, like an IRA or 401(k). HSAs offer your employees the potential for long-term, tax-free savings that can be used for future medical expenses, such as Medicare premiums and certain long-term care expenses and insurance.

Any employee who is not already enrolled in Medicare and is covered by an HDHP (and has no other first dollar coverage except for preventive care) may establish an HSA. There are no income limitations.

Section 1

Universal HSA Principles

1. Employees must be enrolled in an HSA-qualified high deductible health plan (HDHP) to open or contribute to a Health Savings Account (HSA) in their own name.

2. Switching to an HDHP from a traditional low deductible health plan will substantially lower your company's health plan premiums. Some of the money saved in premiums should be deposited into employees' HSAs to make it a win-win situation for both the employer and its employees.

3. The money in the HSA, including employer contributions, stays with employees when they change jobs or become unemployed. This is an attractive benefit for employees, which benefits the employer by making it more likely that the employee will sign up for the lower-cost HSA plan.

4. Employees are empowered by being put in charge of their HSA funds, making them more actively involved in their health care decisions. Spending their own money means that employees will more likely inquire about the cost of their health care expenditures, helping to introduce marketplace competition into the world of health care.

5. There is no time limit as to when employees can reimburse themselves for health care expenses; they just need to keep legible receipts and records in case they are audited.

6. Employee decides whether and how much to spend from the account for their medical expenses, whether to spend out-of-pocket or to save the HSA money for the future. Just like a 401(k), earnings that compound tax-free for several years have the potential to grow exponentially into a supplemental retirement nest egg. After age 65 (or if disabled), employees can withdraw funds for non-qualified expenses without being subject to the 10% penalty, but ordinary income taxes still apply.

7. Employers can opt to make pre-tax contributions to their employees' HSAs through a Section 125 cafeteria plan, as well as allow employees to make additional pre-tax account contributions through payroll deduction.

8. Employees decides which company will hold their HSA money (known as the trustee or custodian), and what type of investments to make within their account. Any investment allowed for IRAs is allowed for HSAs (see Table A).

9. IRS Publication 502 provides a list of most allowable HSA expenditures.

Please see Table D and E of this document for a partial and summary list of allowable (tax-free) and non allowable (not tax-free) expenditures for HSAs.

Section 2
HSA Road Rules for Employers

1. The employee owns the contributions within the HSA as soon as the funds are deposited.

2. You can no more restrict the use of the funds in the employee's HSA than you can restrict the employee's funds in the employee's personal checking account.

3. Employee contributions to their HSAs can be made on an after-tax basis and taken as an above-the-line deduction on their tax return (making such contributions tax-free) or employees can make pre-tax contributions to their Health Savings Account through a Section 125 (a.k.a. "salary reduction" or "cafeteria") plan.

4. HSAs do not generally constitute "employee welfare benefit plans" under ERISA (that is, you are not subject to the complex legal requirements of ERISA) as long as the establishment of the HSA is completely voluntary on the part of the employee and the employer does not prevent the employee from moving their funds to another HSA, impose conditions on how the funds can be used, influence the investment decisions made, represent that the HSA is an employee welfare benefit plan established or maintained by it, or receive any payment or compensation in connection with the HSA.

5. HSAs can be funded on a (1) pay as you go basis, (2) look back basis, or a (3) pre-funded basis. For (1), it is fine to fund employees' HSAs according to their paycheck schedules (bi-weekly, monthly, etc.), you can decide to make changes (such as quit payments at any point) and an employee hired after January 1 is not entitled to additional HSA contributions. For (2), you must contribute to employees' HSAs for every full month they had been employed. For (3), all eligible employees receive their year's HSA contributions on January 1 and all employees hired after January 1 must be compensated on the same basis (whether by pre-funding, pay as you go, or look back).

6. Employee contributions to their HSAs through a cafeteria plan can change on a month-by-month basis. However, you can put reasonable limits on how often those contribution amounts can change.

7. Employer contributions to an employee's HSA are always excluded from the employee's income (such contributions are made pre-tax).

8. Employer contributions must be comparable (subject to certain exceptions), meaning that all employer contributions to employees must be the same amount or percentage of the annual deductible within certain defined employee categories. Employees can be categorized along the lines of coverage (family vs. self), type of employment (part-time vs. full-time vs. former employment) and level of compensation (high vs. non-high compensation).

9. The comparability rule can be applied separately to employees in the following categories: (1) part time employees who work under 30 hours, (2) full time employees who work over 30 hours, and (3) former employees.

10. Comparability rules can be applied separately for self vs. family coverage. Though employees with family health coverage are considered one category, there are subcategories based on the number being covered (employee plus one dependent vs. employee plus two, etc.). There can be differences across, but not within, these subcategories. For comparability purposes, a "greater-numbered" family can never receive a lower amount than a "lesser-numbered" family.

11. If you contribute to <u>any</u> employee's non-employer high deductible health plan HSA then you must do so for all employees with non-employer high deductible health plan HSAs.

12. If you contribute to your employees' plans and there are spousal employees that both have HSAs, you only have to contribute to one of the HSAs if they have a family high deductible health plan that covers both spouses. However, if you contribute to a single employee's non-employer provided high deductible health plan HSA, then you must contribute to both spouse's HSAs.

13. If a non-comparable contribution is made, the excess cannot be recouped by the employer. Instead, the employer has until April 15^{th} of the following calendar year to make the compensatory contributions (plus reasonable interest) to correct for the non-comparable contribution.

14. Comparability rules are likely being violated if "extra contributions" to any employee's HSA (other than to non-highly compensated employees) are being made. For example, additional contributions to an employee's HSA being made based on the employee's seniority, length of service or giving "catch-up" contributions to those employees 55 years and older violate the comparability rules.

15. Employers are not in violation of comparability rules because fired employees in pre-funded or pay as you go contribution schemes may have received more HSA funding than their employment length warranted.

16. Collectively bargained or unionized employees are exempted from comparability rules.

17. Matching contributions by an employer through a Section 125 plan are not subject to the comparability rule, but are subject to the non-discrimination rules of 125 plans.

18. The non-discrimination rule for Section 125 plans, in general, is that contributions cannot be higher for higher-paid employees than they are for lower-paid employees. Contributions that favor lower-paid employees are allowed.

19. If you make HSA contributions through a cafeteria plan, you can make such contributions conditional to an employee's participation in a health assessment, disease management or wellness program without violating comparability rules.

20. Under certain cafeteria plans, employees have the right to accept other benefits (cash or other taxable benefits) in lieu of part or all of the employer HSA contribution.

21. For employers who do not provide their employees with health insurance but whose employees purchase HSAs on their own, such employer may make pre-tax contributions to such employees' HSA through a Section 125 plan, as long as the offer is open to all such employees, and the contribution amount follows the Section 125 plan's non-discrimination rule.

22. Self-employed, partners and S corporation shareholders are not generally considered employees and cannot receive pre-tax employer contributions to their HSAs. Self-employed can only take an above-the-line deduction for their premiums and HSA contributions.

23. Regardless of how an S corporation or LLC is structured, these types of companies cannot make pre-tax contributions to its owners, shareholders, or partners.

24. You may transfer the balance of an FSA/HRA into in an employee's HSA. See Section 4, Rule 8 for the policies governing this type of transfer.

25. A limited purpose FSA or a limited purpose HRA is allowed for expenditures like dental, vision or preventive care.

26. Post-deductible HRAs or post-deductible FSAs are allowed to pay for expenses above the minimum HSA deductible.

27. COBRA rules apply to the high deductible health insurance plan (HDHP) portion of an HSA plan, but not to the financial account (HSA).

Section 3

HSA Eligibility Road Rules

1. The employee desiring to open and/or contribute to an HSA must be enrolled in an HSA-qualified high deductible health plan (HDHP).

2. An HSA-qualified HDHP has the following characteristics:

a.

Minimum Deductible	*2007*	*2008*
Self-only coverage	$1,100	$1,100
Family coverage	$2,200	$2,200

The minimum deductible is indexed annually for inflation; this information is released no later than the preceding June 1st

b.

Maximum Out-of-Pocket Limit	*2007*	*2008*
Self-only coverage	$5,500	$5,600
Family coverage	$11,000	$11,200

The maximum out-of-pocket limit includes deductibles and co-pays and is also indexed annually for inflation; non-covered expenses by the health plan do not count towards the out-of-pocket limit.

c. The HSA-qualified HDHP typically offers first dollar coverage for many preventive care services, meaning that certain preventive care services for your employees are not subject to the deductible. Preventive care services may include: periodic health evaluations such as annual physicals, screening services like mammograms, routine prenatal and well-child care, child and adult immunizations, tobacco cessation programs, and obesity weight loss programs. Check with your health plan provider for specifics;

d. Prescription drugs taken to prevent the onset of a condition for which an employee has developed risk factors may be considered preventive care, thus potentially allowing co-pays to apply, rather than the deductible;

e. As a general rule of thumb, if the employee is treating an existing illness or condition with either a drug or procedure, that drug or procedure is not considered preventive care (an already existing condition cannot be prevented). If the employee is trying to stave off an illness or condition by taking a drug or with a procedure, that may be considered preventive care. Some drugs, such as cholesterol lowering ones, can be either preventive or non-preventive under HSA rules, depending on the health situation;

f. Higher out-of-pocket (co-pays and co-insurance) may be incurred for out-of-network care. Consider this when selecting your company's health plan provider and educate your employees accordingly;

g. Effective January 1, 2006, prescription drug coverage before the deductible is met is no longer allowed, unless the prescription drug use is preventive.

3. Employees cannot be covered by any other health insurance that reimburses for health expenses they incur, unless it is another HSA-qualified HDHP. If a family has all its members covered under two HSA-qualified HDHPs, or some family members are on one qualified plan and the other family members are under another qualified plan, the maximum annual contribution to the account remains in force. Employees with coverage under two HSA-qualified HDHPs do not get to double their HSA contribution.

4. For those employees covered by two HSA-qualified HDHPs, it is a violation of the coordination of benefit rules to be paid by each plan for the same expense.

5. Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) may make your employees ineligible for an HSA unless these accounts are: (1) "limited purpose" (limited to dental, vision, child care, or preventive care) or (2) "post-deductible" (pay for medical expenses after the plan deductible is met). HRAs that set aside money only for retiree health expenses are also acceptable as are ones that are suspended.

6. An employer can restrict the type of expenditures an employee makes from their FSA during a two and a half month grace period that some employers may grant to employees for relief from the FSA "use-it-or-lose-it" rule. If an employer restricts the FSA expenditures to non-health items (such as is the case with a limited-purpose FSA) during this grace period, then such employee is eligible for an HSA, provided they have the proper high deductible health plan.

7. Employees who are enrolled in Medicare or Medicaid cannot open an HSA.

8. Tricare (military healthcare) does not currently offer an HSA-qualified high deductible health plan. Therefore, employees on Tricare cannot have HSAs.

9. Employees who have received any Veterans Administration health benefits in the last three months cannot have an HSA.

10. Employees who are Medicare-eligible, but not enrolled in Medicare, can open or contribute to an HSA if they have an HSA-qualified health insurance plan (please see Table B).

11. Your employees cannot establish separate HSA accounts for their minor dependent children.

12. There is no earned income requirement for your employees to have an HSA.

13. Unlike an IRA, there are no income limits to having an HSA.

14. Your employees do not have to itemize their deductions on their federal income taxes to deduct their contributions to an HSA. HSA deductions are "above-the-line" before Adjusted Gross Income (AGI) is calculated.

15. Your employees can open an HSA and also have specific disease or illness, accident, disability, dental care, vision care, and long-term care insurance, and be enrolled in Employee Assistance, disease management, drug discount, and wellness programs.

NOTE: Reasonable benefit designs (lifetime limits on benefits, limits to usual, customary and reasonable amounts, limits on specific benefits, pre-certification requirements) are not counted toward the out-of-pocket maximum.

Section 4

HSA Contribution Road Rules

1. Employees must have an HSA-qualified HDHP to open or contribute to an HSA.

2. If the employee no longer has an HSA-qualified HDHP, that employee can no longer contribute to the HSA, but can still spend the already deposited funds as stipulated by law.

3. Beginning in 2007, the maximum HSA contribution is not limited to the annual deductible under the high deductible health plan. Prior to 2007, the annual HSA deposit could never exceed the insurance plan's deductible (except for those employees who were 55 or older and were making "catch-up" contributions.)

4.

Maximum Contribution Per Year	*2007*	*2008*
Self-only coverage	$2,850	$2,900
Family coverage	$5,650	$5,800

The maximum amount that can be contributed per year (by all sources combined) is indexed annually for inflation and excludes "catch-up" contributions for those 55 years and older.

5. Beginning in 2007, as long as the employee is enrolled in an HSA-qualified HDHP for at least the last full month of the year, the employee is eligible to make a full HSA contribution for that year, provided that the employee remains enrolled in an eligible HDHP for the full following calendar year. If the employee does not maintain HSA eligibility through the end of the following calendar year, the maximum contribution amount is pro-rated based on the number of full months the employee had the HDHP.

   For example, let's say the employee becomes eligible on December 1, 2007. Even though the employee did not have HDHP coverage for the first 11 months of the year, he/she is still eligible to make a full-year HSA contribution of $2,850, provided that HDHP coverage (and HSA eligibility) is maintained for a period beginning December 1, 2007, and ending December 31, 2008.

6. Deposits to an HSA must be made in cash or through a rollover from a Flexible Spending Account (FSA), Health Reimbursement Arrangement (HRA), Individual Retirement Account (IRA) or another HSA (HSA).

7. For FSA/HRA rollovers, contributions to an HSA must not exceed an amount equal to the lesser of (1) the balance in the health FSA or HRA as of September 21, 2006, or (2) the balance in the health FSA or HRA as of the date of the distribution. The distribution is not includible in income (or carry other penalties) and does not count against the maximum tax deductible contribution that can be made to the HSA.

8. For IRA rollovers, a direct trustee-to-trustee transfer can be made only one time per lifetime (the only exception being if a contributing individual goes from having self-only to family coverage during the tax year). The amount that can be distributed from the IRA and contributed to an HSA is limited to the otherwise maximum deductible contribution amount to the HSA based on the type of coverage under the high deductible health plan at the time of the contribution. Amounts distributed from an IRA under the provision are not includible in income to the extent they would otherwise be includible in income and are not subject to the 10-percent additional tax on early distributions. The provision does not apply to simplified employee pensions (SEPs) or to SIMPLE retirement accounts.

9. Employees who are 55 and older can make additional "catch-up" contributions until they enroll in Medicare. For a schedule of the increasing "catch-up" deposit amounts allowed, please see Table B.

10. In the year the employee enrolls in Medicare, the employee must pro-rate the "catch-up" contribution for the number of months the employee had HSA-qualified HDHP coverage, prior to the month that Medicare enrollment became effective.

11. If an employee has a family plan with multiple per-person deductibles, he/she cannot deposit more into the HSA than the maximum amount allowed for family coverage. For example, a family of two with a $4,000 per person deductible cannot deposit $8,000 into their 2008 family HSA; rather, the maximum contribution is $5,800.

12. An employee or employer can "front load" or fully fund the HSA on day one of the employee's HSA being in effect, provided the annual maximum amount is not exceeded.

13. If an employee becomes covered by a HDHP in a month later than January, full contributions can be made or "back loaded" into the HSA for the preceding months up to January. If, however, the employee falls out of qualifying insurance coverage (for reasons other than death or disability), all the back loaded months of HSA contributions for which the employee is not eligible is includible in the employee's gross income, as well as a 10-percent additional tax to the amount includible.

14. Funds can be deposited into the HSA in a lump sum or in any amounts or frequency desired. However, the HSA trustee/custodian may impose minimum deposit and balance requirements.

15. Rollovers from an employee's Archer Medical Savings Account into a HSA are allowed if completed within 60 days of the employee withdrawing the funds from the Archer Medical Savings Account.

16. The term "rollover" has several meanings. Rollover of HSA funds from year to year of unspent balances is well understood. However, IRA and HSA rollovers have another meaning to the IRS: an accountholder is allowed to take any amount of the HSA funds out of the account out once a year, and there is no limitation on what those funds can be spent on. If the funds are returned to the HSA within 60 days, there is no tax or penalty. However, if those funds are not returned to the HSA within 60 days, then the accountholder must pay the taxes due on those funds, and the 10% penalty. Unofficially, this "rollover" rule is known as the "playing with fire" rule.

17. Unlimited HSA trustee to HSA trustee transfers are allowed, meaning your employees can move their HSA any number of times in a given year.

18. If a contribution is made into the HSA which exceeds the maximum allowable deposit, a withdrawal of the excess amount and any earnings on the excess amount can be made prior to April 15th of the following year without the employee incurring any tax penalty. However, the employee must pay income tax on the excess contributions and income tax on any earnings of the excess contribution.

19. If the employee does not withdraw the excess contribution to the HSA prior to April 15th of the following year, the employee must pay a 6% excise tax on the excess contribution, and on any earnings of the excess contribution. If in the next year the employee decreases the maximum contribution by the amount of the excess contribution made the year before, the 6% excise tax does not have to be paid again. If, however, the employee leaves the excess contribution in, and does not decrease the maximum contribution by the amount of the excess contribution made the year before, he/she will have to pay the 6% excise tax each year the excess contributions and earnings are in the HSA.

20. An employer paying COBRA for an employee with an HSA does not have to continue making deposits into the HSA. The employer does have to pay the continuing premium for the qualified HDHP.

Section 5

HSA Spending Road Rules

1. There is a wide range of allowable tax-free HSA expenditures, including vision and dental expenses, and, even braces for your employees' children. A description of qualified HSA expenditures can be found in IRS Publication 502, and is located at the web at: http://www.irs.gov/pub/irs-pdf/p502.pdf. Publication 502 has great examples, but it is not the definitive list (please see Table D for a partial list of allowable tax-free expenditures and Table E for non allowable expenditures).

2. If a distribution from the HSA is used for purposes other than a qualified health care expense as defined in IRS Publication 502, then the amount withdrawn is subject to both income tax and a 10% penalty, unless the person who makes such a withdrawal from their HSA is over the age of 65. If 65 years old or older, the amount withdrawn for non-medical purposes is treated as retirement income, and is subject to normal income tax, but is not subject to the 10% penalty.

3. Withdrawals that were made for what the HSA owner thought were qualified medical expenditures, but turned out not to be qualified medical expenditures, can be returned to the HSA if there is clear and convincing evidence that the expenditure was a mistake of fact. Such repayment to the HSA must be made on or before April 15th of the year following when the employee knew, or should have known, the expenditure was a mistake.

4. Other qualified expenses from an HSA include out-of-pocket health expenditures while enrolled in Medicare (including Medicare premiums, deductibles, coinsurance and co-pays but not "Medigap"), employee share of health insurance premiums for employer-based coverage, premiums for COBRA continuation health insurance coverage from a former employer, premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code (please see Table C), and medical services provided in other countries.

5. Employees with an HSA must keep all their receipts showing their expenditures from their account. There are two key reasons to do this: (1) if employees exceed their deductible, they may need the receipts to send to their insurer, and (2) in case they are audited by the IRS and need to explain their HSA expenditures.

6. Employees may use HSA funds to reimburse expenses from a previous year, but only if employee had an HSA at the time the expenses were incurred.

7. The employee's spouse will inherit the HSA upon employee's death, unless employee specifies otherwise ahead of time.

8. Should the HSA owner have no spouse, the funds in the account shall no longer be treated as an HSA but part of the employee's estate and will be subject to estate taxes.

9. The employee cannot use HSA funds to pay for health insurance premiums, unless the employee becomes unemployed and starts receiving federal or state unemployment benefits.

Section 6

Why HSAs Were Designed this Way

1. **Why can't the out-of-pocket amount be tied to the maximum contribution?** Tying the maximum contribution rate to the out-of-pocket maximum is a viable policy, but the cost to the Federal government in lost taxable income made that idea politically unviable when the law was passed.

2. **Why not carve out prescription drugs and allow tiered co-pays?** Including prescription drugs as a benefit below the deductible will drive up the low cost of HSA-qualified HDHPs, and, as a result, reduce the amount of savings derived from switching to an HDHP. Likewise, tiered co-pays, or any other benefit that is paid outside the deductible, greatly diminish the effect of consumers spending their own money. When spending their own money, consumers spend it differently than if spending someone else's money. Think of going out for an all expenses paid meal, versus going to a restaurant where you are paying: you order differently.

3. **Why can't early retirees pay their HSA-qualified health insurance premium from their HSA?** This change in the law was suggested but the objection is that given that there are millions in the individual market who have health insurance but receive no tax break for their purchase, why should insured early retirees get special treatment?

4. **Why can't seniors use their HSA to pay for Medigap coverage?** The guiding principle of HSAs is for people to use their own money to meet a substantial deductible, thereby providing a financial incentive to spend the funds wisely and not to over consume. The main purpose of a Medigap policy is to insure the Medicare deductible.

   Allowing HSA funds to pay for Medigap insurance would be akin to allowing HSA funds to buy insurance to cover the HSA deductible. In other words, it would be using HSA funds to defeat the entire purpose of an HSA.

5. **Why are the long-term care premium amounts that can be paid out of an HSA limited?** During the HSA legislation drafting process, there were other issues being negotiated that needed political capital more than allowing for unlimited amounts to be spent on long-term care premiums.

6. **Why can't HSA distributions be tax free upon death?** The revenue loss to the Federal government made the price tag for that suggestion too high.

7. **Why can't spouses have one joint HSA and still make "catch-up" contributions?** There can be only one primary account holder of the HSA. Both spouses may contribute. The practical effect of this restriction is not significant.

8. **Are "catch-up" contributions pro-rated when account holders turn 55 and 65?** Please see Table B.

9. **Can the self-employed contribute on a pre-tax basis? How about for partnerships or for S corporation owners who own more than 2% or for LLC owners?** Self-employed can only take an above-the-line deduction for their premium and HSA contribution. Regardless of how the S corporation or LLC is structured, the only way HSA contributions can be made is as an above-the-line deduction. The HSA legislation simply cited current law in this regard. It was a political impossibility in the HSA legislation to make the necessary change in law to allow pre-tax contributions for LLC owners, S corporation owners or the self-employed. For further guidance on partnerships and S corporations, see IRS Guidance 2005-8 at www.treas.gov/press/releases/reports/notice%2020058.pdf.

10. **What is an "above-the-line" deduction?** An above-the-line deduction reduces the account holder's Federal taxable income dollar for dollar by the amount contributed to the HSA. An account holder does not have to itemize to claim this deduction.

11. **Why can't health insurance premiums be paid with an HSA?** The money in the HSA is designed to meet an individual's out-of-pocket health care expenses, not to pay for health insurance premiums. What if people spent their entire HSA deposit on their insurance premiums, and found no funds left to meet their health care costs to meet their deductible? The only time an individual is allowed to pay the health insurance premium with HSA funds is when the individual is collecting Federal or State unemployment benefits or is on COBRA.

12. **Where can a list of qualified medical expenses be found?** See Tables D and E for a list of allowable and non allowable medical expenses. Please also see IRS Publication 502, which can be found in the U.S. Treasury section of this website, or at http://www.irs.gov/pub/irs-pdf/p502.pdf.

Table A
Allowable HSA Investments

Allowable HSA Investments
→ Bank Accounts
→ Annuities
→ Certificates of Deposit
→ Stocks
→ Bonds
→ Mutual Funds
→ Certain types of Bullion or Coins

NOTE: The HSA custodian or trustee may restrict certain types of investments.

Not Allowable HSA Investments
→ Collectables: including any work of art, antique, metal, gem, stamp, coin, alcoholic beverage or other personal property as described in Section 408(m)(3) of the Internal Revenue Code
→ Life Insurance Contracts

Table B
Allowable "Catch-Up" Contributions

Allowable "Catch-Up" Contributions	
Tax Year 2004	Up to $500.00
Tax Year 2005	Up to $600.00
Tax Year 2006	Up to $700.00
Tax Year 2007	Up to $800.00
Tax Year 2008	Up to $900.00
Tax Year 2009 and Beyond	Up to $1,000.00

Each employee and spouse age 55 or older can contribute up to the maximum "catch-up" amount. If the employee did not have HDHP coverage for the full year, the employee must pro-rate the "catch-up" contribution for the number of full months that the employee was "eligible", i.e., had HDHP coverage. If the employee had HSA-qualified HDHP coverage for the entire year, the employee can deposit the entire "catch-up" amount starting with the year the employee turned 55, regardless of when the employee turned 55 during the year. If both spouses want to make "catch-up" contributions, each spouse must have a separate HSA.

In the year the employee enrolls in Medicare, the employee must prorate the "catch-up" contribution for the number of months the employee had HSA-qualified HDHP coverage, prior to the month the employee's Medicare enrollment became effective. The employee can delay enrollment in Medicare Part A only if the employee also delays taking Social Security. The employee can delay taking Social Security up until age 70 and one half years old.

Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including "catch-up" amounts, to the HSA. If the employee is not enrolled in Medicare, the employee can contribute to the HSA and continue to make "catch-up" contributions.

NOTE: If the employee enrolls in Social Security, the employee also becomes automatically enrolled in Medicare Part A, which disqualifies the employee from making any more contributions to the HSA.

Table C
Allowable Expenditures on Long-Term Care Insurance

In order for your employees to spend money from the HSA on long-term care, the long-term care insurance contract must:

1. Be guaranteed renewable;

2. Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed;

3. Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract, must be used only to reduce future premiums or increase future benefits;

4. Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

The amount of qualified long-term care premiums that can be paid from an HSA is limited. Beginning in 2006, the below amounts can be included as a qualified medical expense. These amounts may be adjusted annually for inflation. For 2008, these inflation-adjusted amounts, as published in IRS Publication 502, are:

2008 Allowable Long-Term Care Premium Amounts	
Age 40 or Under	Up to $290
Age 41 to 50	Up to $550
Age 51 to 60	Up to $1,110
Age 61 to 70	Up to $2,950
Age 71 or Over	Up to $3,680

Table D
Allowable Expenditures from the HSA

There have been thousands of cases involving the many nuances of what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is for "medical care" is based on all the relevant facts and circumstances. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. The determination often hangs on the word "primarily".

NOTE: If receiving federal or state unemployment insurance, the employee may pay for health insurance premiums with HSA funds. See next page for a list of most allowable expenditures.

Table D

Allowable Expenditures from the HSA (continued)

Allowable Expenditures from the HSA	
Acupuncture	Alcoholism Treatment
Ambulance	Artificial Limb
Artificial Teeth	Bandages
Birth Control Pills (by prescription)	Breast Reconstruction Surgery (mastectomy)
Car Special Hand Controls (for disability)	Certain Capital Expenses (for the disabled)
Chiropractors	Christian Science Practitioners
COBRA premiums	Contact Lenses
Cosmetic Surgery (if due to trauma or disease)	Crutches
Dental Treatment	Dermatologist
Diagnostic Devices	Disabled Dependent Care Expenses
Drug Addiction Treatment (inpatient)	Drugs (prescription)
Eyeglasses	Fertility Enhancement
Guide Dog	Gynecologist
Health Institute (if prescribed by physician)	H.M.O. (certain expenses)
Hearing Aids	Home Care
Hospital Services	Laboratory Fees
Lasik Surgery	Lead-Based Paint Removal
Learning Disability Fees (prescription)	Legal Fees (if for mental illness)
Life-Care Fees	Lodging (for out-patient treatment)
Long-Term Care (medical expenses)	Long-Term Care Insurance (up to allowable limits)
Meals (associated with receiving treatments)	Medical Conferences (for ill spouse/dependent)
Medicare Premiums	Medicare Deductibles
Nursing Care	Mentally Retarded (specialized homes)
Obstetrician	Nursing Homes
Operations – Surgical	Operating Room Costs
Optician	Ophthalmologist
Organ Transplant (including donor's expenses)	Optometrist
Orthopedic Shoes	Orthodonture
Osteopath	Orthopedist
Over-the-Counter Medicines	Out-of-pocket expenses while enrolled in Medicare
Pediatrician	Oxygen and Equipment
Podiatrist	Personal Care Services (for chronically ill)
Prenatal Care	Post-Nasal Treatments
Prosthesis	Prescription Medicines
Psychiatric Care	PSA Test
Psychoanalysis	Psychiatrist
Psychologist	Psychoanalyst
Radium Treatment	Qualified Long-Term Care Services
Special Education for Children (ill or disabled)	Smoking Cessation Programs
Spinal Tests	Specialists
Sterilization	Splints
Telephones and Television for the Hearing	Surgeon
Therapy	Impaired
Treatment	Transportation Expenses for Health Care
Vitamins (if prescribed)	Vaccines
Wheelchair	Weight Loss Programs
X-Rays	Wig (hair loss from disease)

Table E

Non-Allowable Expenditures from the HSA

Non-Allowable Expenditures from the HSA	
Advance Payment for Future Medical Expenses	Athletic Club Membership
Automobile Insurance Premium	Babysitting (for healthy children)
Boarding School Fees	Bottled Water
Commuting Expenses for the Disabled	Controlled Substances
Cosmetics and Hygiene Products	Dancing Lessons
Diaper Service	Domestic Help
Electrolysis or Hair Removal	Funeral Expenses
Hair Transplant	Health Programs at Resorts, Health Clubs, & Gyms
Household Help	Illegal Operations and Treatments
Illegally Procured Drugs	Maternity Clothes
Medigap premiums	Nutritional Supplements
Premiums for Life or Disability Insurance	Premiums for Accident Insurance
Premiums for your HSA-qualified health plan	Scientology Counseling
Social Activities	Special Feeds/Beverages
Swimming Lessons	Teeth Whitening
Travel for General Health Improvement	Tuition in a Particular School for Problem Children

Publisher's Note

Downloaded by millions since 2004, HSA Road Rules is an easy-to-understand guidebook that distills the most important principles about HSAs.

The information contained in HSA Road Rules may not necessarily apply to your specific circumstances or take into account your individual tax or employee benefits situation. We make no claims concerning HSA Road Rules' accuracy or validation by any third party. Please consult your own tax or legal advisor for assistance.

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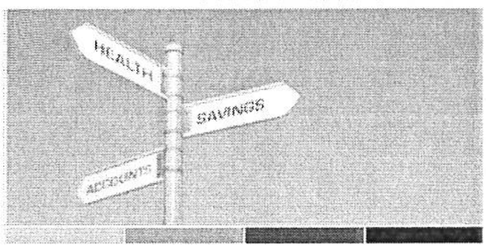
HSA ROAD RULES



HSA Road Rules for Employees / Individuals
Sixth Edition, January 2008

Table of Contents

Introduction to Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is like a 401(k) for healthcare. It is a tax-advantaged personal savings or investment account that individuals can use to save and pay for qualified health expenses, now or in the future. Paired with a qualified high deductible health plan (HDHP), an HSA is a powerful financial tool that empowers consumers to be more actively involved in their health care decisions.

However, unlike other financial savings vehicles (Roth IRA, Traditional IRA, 401K, etc.), an HSA has the unique potential to offer triple tax savings through:

- ✓ Pre-tax or tax-deductible contributions to the HSA
- ✓ Tax-free interest or investment earnings
- ✓ Tax-free distributions, when used for qualified medical expenses

Contributions can be made by the employer, the employee/individual, or both. Tax-free withdrawals can be made to pay for qualified medical expenses incurred by the accountholder, spouse, children and other dependents.

HSAs are also portable, which means that individuals keep their HSAs, if changing jobs or becoming unemployed. Also, since the account is owned by the individual, there is no "use-it-or-lose-it" provision, like with a Flexible Spending Account (FSA). Instead, unused contributions roll over each year, with interest and/or investment earnings compounding on a tax-free basis, like an IRA or 401(k). HSAs offer the potential for long-term, tax-free savings that can be used for future medical expenses, such as Medicare premiums and certain long-term care expenses and insurance.

Any adult who is not already enrolled in Medicare and is covered by an HDHP (and has no other first dollar coverage except for preventive care) may establish an HSA. There are no income limitations.

Section 1
Universal HSA Principles for Consumers

1. You must be enrolled in an HSA-qualified high deductible health plan (HDHP) to open or contribute to a Health Savings Account (HSA) in your own name.

2. Switching to an HDHP from a traditional low deductible health plan will substantially lower your health plan premium. The money you save in premiums can be deposited into your HSA.

3. The money in your HSA is entirely your own. Even if your employer makes contributions to your HSA, your employer cannot restrict what you can spend it on. Since it is your money, it also stays with you when you change jobs.

4. You are in charge of your HSA funds, making you and your doctor the decision makers, not some third-party. Spending your own money also means that you will likely inquire more about the cost of your health care expenditures, helping to introduce marketplace competition into the world of health care.

5. There is no time limit as to when you can reimburse yourself for your health care expenses; you just need to keep legible receipts and records in case you do reimburse yourself or if you are audited.

6. You decide whether and how much to spend from the account for your medical expenses, whether to spend out-of-pocket or to save the HSA money for the future. Just like a 401(k), earnings that compound tax-free for several years have the potential to grow exponentially into a supplemental retirement nest egg. After age 65 (or if you're disabled), funds can withdrawn for non-qualified expenses without being subject to the 10% penalty, but ordinary income taxes still apply.

7. Anyone can contribute to another person's HSA. The tax benefit from such a contribution is gained by the person receiving the contribution, not the person giving the contribution.

8. You decide which company will hold your HSA money (your trustee or custodian), and what type of investments you make with your account. Any investment allowed for IRAs is allowed for HSAs (please see Table A).

9. IRS Publication 502 provides a list of most allowable HSA expenditures.

Please see Table D and E of this document for a partial and summary list of allowable (tax-free) and non allowable (not tax-free) expenditures from your HSA.

Section 2
HSA Eligibility Road Rules

1. The accountholder must be enrolled in an HSA-qualified high deductible health plan (HDHP).

2. An HSA-qualified HDHP has the following characteristics:

a.

Minimum Deductible	*2007*	*2008*
Self-only coverage	$1,100	$1,100
Family coverage	$2,200	$2,200

The minimum deductible is indexed annually for inflation; this information is released no later than the preceding June 1st

b.

Maximum Out-of-Pocket Limit	*2007*	*2008*
Self-only coverage	$5,500	$5,600
Family coverage	$11,000	$11,200

The maximum out-of-pocket limit includes deductibles and co-pays and is also indexed annually for inflation; non-covered expenses by the health plan do not count towards the out-of-pocket limit.

c. Your HSA-qualified HDHP offers first dollar coverage for many preventive care services, meaning that certain preventive care services are not subject to the deductible. Preventive care services may include: periodic health evaluations such as annual physicals, screening services like mammograms, routine prenatal and well-child care, child and adult immunizations, tobacco cessation programs, and obesity weight loss programs. Check with your health plan provider for specifics;

d. Prescription drugs taken to prevent the onset of a condition for which a person has developed risk factors may be considered preventive care, thus potentially allowing co-pays to apply to preventive care, rather than being subject to the deductible;

e. As a general rule of thumb, if you are treating an existing illness or condition with either a drug or procedure, that drug or procedure is not considered preventive care (an already existing condition cannot be prevented). If you are trying to stave off an illness or condition by taking a drug or with a procedure, that may be considered preventive care. Some drugs, such as cholesterol lowering ones, can be either preventive or non-preventive under HSA rules, depending on your own health situation;

f. Higher out-of-pocket (co-pays and co-insurance) may be incurred for out-of-network care. Consider this when selecting your health plan provider;

g. Effective January 1, 2006, prescription drug coverage before the deductible is met is no longer allowed, unless the prescription drug use is preventive.

3. You cannot be covered by any other health insurance that reimburses you for health expenses you incur, unless it is another HSA-qualified HDHP. If a family has all its members covered under two HSA-qualified HDHPs, or some family members are on one qualified plan and the other family members are under another qualified plan, the maximum annual contribution to the account remains in force. Just because you have coverage with two HSA-qualified HDHPs does not mean you can double your HSA contribution.

4. For those covered by two HSA-qualified HDHPs, it is a violation of the coordination of benefit rules to be paid by each plan for the same expense.

5. Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) may make you ineligible for an HSA unless they are: (1) "limited purpose" (limited to dental, vision, child care, or preventive care) or (2) "post-deductible" (pay for medical expenses after the plan deductible is met). HRAs that set aside money only for retiree health expenses are also acceptable as are ones that are suspended.

6. An employer can restrict the type of expenditures an employee makes from their FSA during a two and a half month grace period that some employers may grant to employees for relief from the FSA "use-it-or-lose-it" rule. If an employer restricts the FSA expenditures to non-health items (such as is the case with a limited-purpose FSA) during this grace period, then such employee is eligible for an HSA, provided they have the proper high deductible health plan.

7. If you are enrolled in Medicare or Medicaid, you cannot open an HSA.

8. Tricare (military healthcare) does not currently offer an HSA-qualified high deductible health plan. Therefore, if you are on Tricare, you cannot have an HSA.

9. If you have received any Veterans Administration health benefits in the last three months, you cannot have an HSA.

10. If you are Medicare eligible and are not enrolled in Medicare, you can open or contribute to an HSA if you have an HSA-qualified health insurance plan (please see Table B).

11. You cannot establish separate HSA accounts for your minor dependent children.

12. You do not have to have earned income from employment to have an HSA.

13. Unlike an IRA, there are no income limits to having an HSA.

14. You do not have to itemize your deductions on your federal income taxes to deduct your contributions to an HSA. HSA deductions are "above-the-line" before Adjusted Gross Income (AGI) is calculated.

15. You can open an HSA and also have specific disease or illness, accident, disability, dental care, vision care, and long-term care insurance, and be enrolled in Employee Assistance, disease management, drug discount, and wellness programs.

NOTE: Reasonable benefit designs (lifetime limits on benefits, limits to usual, customary and reasonable amounts, limits on specific benefits, pre-certification requirements) are not counted toward the out-of-pocket maximum.

Section 3

HSA Contribution Road Rules

1. You must have an HSA-qualified HDHP to open or contribute to an HSA.

2. If you no longer have an HSA-qualified HDHP, you cannot contribute to your HSA, but you can maintain and spend the already deposited funds as stipulated by law.

3. Beginning in 2007, the maximum HSA contribution is not limited to the annual deductible under the high deductible health plan. Prior to 2007, your annual HSA deposit could never exceed your insurance plan's deductible, unless you were 55 or older and were making "catch-up" contributions.

4.

Maximum Contribution Per Year	*2007*	*2008*
Self-only coverage	$2,850	$2,900
Family coverage	$5,650	$5,800

The maximum amount you can contribute per year is indexed annually for inflation and excludes "catch-up" contributions for those 55 years and older.

5. Beginning in 2007, as long as you are enrolled in an HSA-qualified HDHP for at least the last full month of the year, you are eligible to make a full HSA contribution for that year, provided that you remain enrolled in an eligible HDHP for the full following calendar year. If you do not have coverage at the end of the following calendar year, the maximum contribution amount is pro-rated based on the number of full months you had the HDHP.

   For example, let's say you become eligible on December 1, 2007. Even though you did not have HDHP coverage for the first 11 months of the year, you are still eligible to make a full-year HSA contribution of $2,850, provided that you maintain HDHP coverage for a period beginning December 1, 2007, and ending December 31, 2008.

6. Deposits to an HSA must be made in cash or through a rollover from a Flexible Spending Account (FSA), Health Reimbursement Arrangement (HRA), Individual Retirement Account (IRA) or another HSA (HSA).

7. For FSA/HRA rollovers, contributions to an HSA must not exceed an amount equal to the lesser of (1) the balance in the health FSA or HRA as of September 21, 2006, or (2) the balance in the health FSA or HRA as of the date of the distribution. The distribution is not includible in income (or carry other penalties) and does not count against the maximum tax deductible contribution that can be made to the HSA.

8. For IRA rollovers, a direct trustee-to-trustee transfer can be made only one time per lifetime (the only exception being if a contributing individual goes from having self-only to family coverage during the tax year). The amount that can be distributed from the IRA and contributed to an HSA is limited to the otherwise maximum deductible contribution amount to the HSA based on the type of coverage under the high deductible health plan at the time of the contribution. Amounts distributed from an IRA under the provision are not includible in income to the extent they would otherwise be includible in income and are not subject to the 10-percent additional tax on early distributions. The provision does not apply to simplified employee pensions (SEPs) or to SIMPLE retirement accounts.

9. Individuals 55 and older can make additional "catch-up" contributions until they enroll in Medicare. For a schedule of the increasing "catch-up" deposit amounts allowed, please see Table B.

10. In the year you enroll in Medicare, you must pro-rate your "catch-up" contribution for the number of months you had HSA-qualified HDHP coverage, prior to the month your Medicare enrollment is effective.

11. If you have a family plan with multiple per-person deductibles, you cannot deposit more into the HSA than the maximum amount allowed for family coverage. For example, a family of two with a $4,000 per person deductible cannot deposit $8,000 into their 2007 family HSA; rather, the maximum contribution is $5,650.

12. You can "front load" or fully fund your HSA on day one of your HSA being in effect, provided you do not exceed the annual maximum amount. You can make the deposit anytime after your HSA is open.

13. If you become covered by a HDHP in a month later than January, you can "back load" or make full contributions for the preceding months up to January. If, however, you fall out of qualifying insurance coverage (for reasons other than death or disability), all the back loaded months of HSA contributions for which you are not eligible are includible in your gross income and you face a 10-percent additional tax to the amount includible.

14. You can deposit funds into your HSA in a lump sum or in any amounts or frequency you wish. However, your account trustee/custodian can impose minimum deposit and balance requirements.

15. Rollovers from an Archer Medical Savings Account into a HSA are allowed if completed within 60 days of withdrawing the funds from your Archer Medical Savings Account.

16. The term "rollover" has several meanings. Rollover of HSA funds from year to year of unspent balances is well understood. However, IRA and HSA rollovers have another meaning to the IRS: you are allowed to take any amount of your HSA funds out of your account out once a year, and there is no limitation on what those funds can be spent on. If the funds are returned to the HSA within 60 days, there is no tax or penalty. However, if those funds are not returned to the HSA within 60 days, then you must pay the taxes due on those funds, and the 10% penalty. Unofficially, this "rollover" rule is known as the "playing with fire" rule.

17. Unlimited HSA trustee to HSA trustee transfers are allowed, meaning you can move your HSA account any number of times you want in a given year.

18. If you have contributed an amount into your HSA which exceeds your maximum allowable deposit, you may withdraw the excess amount and any earnings on the excess amount prior to April 15th of the following year without paying a tax penalty. However, you must pay income tax on your excess contributions and income tax on any earnings of the excess contribution.

19. If you do not withdraw the excess contribution to your HSA prior to April 15th of the following year, you must pay a 6% excise tax on the excess contribution, and on any earnings of the excess contribution. If in the next year you decreased your maximum contribution by the amount of your excess contribution made the year before, you do not have to pay the 6% excise tax again. If, however, you leave the excess contribution in, and do not decrease your maximum contribution by the amount of your excess contribution made the year before, you will have to pay the 6% excise tax each year the excess contributions and earnings are in the HSA.

20. If your employer is paying COBRA for you, your employer does not have to continue making deposits into your HSA. However, your employer does have to pay the continuing premium for your qualified HDHP.

Section 4

HSA Spending Road Rules

1. There is a wide range of allowable tax-free HSA expenditures, including vision and dental expenses, and, for example, braces for your children. A description of qualified HSA expenditures can be found in IRS Publication 502, and is located at the web at: http://www.irs.gov/pub/irs-pdf/p502.pdf. Publication 502 has great examples, but it is not the definitive list (please see Table D for a partial list of allowable tax-free expenditures and Table E for non allowable expenditures).

2. If a distribution from your HSA is used for purposes other than a qualified health care expense as defined in IRS Publication 502, then the amount withdrawn is subject to both income tax and a 10% penalty, unless the person who makes such a withdrawal from their HSA is over the age of 65. If 65 years old or older, the amount withdrawn for non-medical purposes is treated as retirement income, and is subject to normal income tax, but is not subject to the 10% penalty.

3. Withdrawals that were made for what the HSA owner thought were qualified medical expenditures, but turned out not to be qualified medical expenditures, can be returned to the HSA if there is clear and convincing evidence that the expenditure was a mistake of fact. Such repayment to the HSA must be made on or before April 15th of the year following when the individual knew, or should have known, the expenditure was a mistake.

4. Other qualified expenses from an HSA include out-of-pocket health expenditures while enrolled in Medicare (including Medicare premiums, deductibles, coinsurance and co-pays but not "Medigap"), employee share of health insurance premiums for employer-based coverage, premiums for COBRA continuation health insurance coverage from a former employer, premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code (please see Table C), and medical services provided in other countries.

5. Everyone with an HSA must keep all their receipts showing their expenditures from their account. There are two key reasons to do this: (1) if you exceed your deductible, you may need the receipts to send to your insurer, and (2) in case you are audited by the IRS, you need to explain your HSA expenditures.

6. You may use funds from your HSA to reimburse expenses from a previous year, but only if you had an HSA at the time the expenses were incurred.

7. Your spouse will inherit your HSA upon your death, unless you provide otherwise.

8. Should the HSA owner have no spouse, the funds in the account shall no longer be treated as an HSA but part of the individual's estate and will be subject to estate taxes.

9. HSA funds cannot be used to pay for health insurance premiums unless the individual is receiving federal or state unemployment benefits.

Section 5

Why HSAs Were Designed this Way

1. **Why can't the out-of-pocket amount be tied to the maximum contribution?** Tying the maximum contribution rate to the out-of-pocket maximum is a viable policy, but the cost to the Federal government in lost taxable income made that idea politically unviable when the law was passed.

2. **Why not carve out prescription drugs and allow tiered co-pays?** Including prescription drugs as a benefit below the deductible will drive up the low cost of HSA-qualified HDHPs, and, as a result, reduce the amount of savings derived from switching to an HDHP. Likewise, tiered co-pays, or any other benefit that is paid outside the deductible, greatly diminishes the effect of consumers spending their own money. When you spend your own money, you spend it differently than if you are spending someone else's money. Think of going out for an all expenses paid meal, versus going to a restaurant where you are paying: you order differently.

3. **Why can't early retirees pay their HSA-qualified health insurance premium from their HSA?** This change in the law was suggested but the objection is that given that there are millions in the individual market who have health insurance but receive no tax break for their purchase, why should insured early retirees get special treatment?

4. **Why can't seniors use their HSA to pay for Medigap coverage?** The guiding principle of HSAs is for people to use their own money to meet a substantial deductible, thereby providing a financial incentive to spend the funds wisely and not to over consume. The main purpose of a Medigap policy is to insure the Medicare deductible.

   Allowing HSA funds to pay for Medigap insurance would be akin to allowing HSA funds to buy insurance to cover the HSA deductible. In other words, it would be using HSA funds to defeat the entire purpose of an HSA.

5. **Why are the long-term care premium amounts that can be paid out of an HSA limited?** During the HSA legislation drafting process, there were other issues being negotiated that needed political capital more than allowing for unlimited amounts to be spent on long-term care premiums.

6. **Why can't HSA distributions be tax free upon your death?** The revenue loss to the Federal government made the price tag for that suggestion too high.

7. **Why can't we have one joint HSA and still make "catch-up" contributions?** There can be only one primary account holder of the HSA. Both spouses may contribute. The practical effect of this restriction is not significant.

8. **Are "catch-up" contributions pro-rated when you turn 55 and 65?** Please see Table B.

9. **If I am self-employed, can I contribute on a pre-tax basis? How about for partnerships or for S corporation owners who own more than 2% or for LLC owners?** Self-employed can only take an above-the-line deduction for their premium and HSA contribution. Regardless of how your S corporation or LLC is structured, the only way you can structure your HSA contributions is as an above-the-line deduction. The HSA legislation simply cited current law in this regard. It was a political impossibility in the HSA legislation to make the necessary change in law to allow pre-tax contributions for LLC owners, S corporation owners or the self-employed. For further guidance for partnerships and S corporations, see IRS Guidance 2005-8 at http://www.treas.gov/press/releases/reports/notice%2020058.pdf.

10. **What is an "above-the-line" deduction?** An above-the-line deduction reduces your Federal taxable income dollar for dollar by the amount you contribute. You do not have to itemize to claim this deduction. For example, if you contribute $1,000 to your HSA, you reduce your Federal taxable income by $1,000.

11. **Why can't I pay my health insurance premiums with my HSA?** The money in your HSA is designed to meet your health care expenses below your deductible, not to meet your health insurance premiums. What if people spent their entire HSA deposit on their insurance premiums, and found no funds left to meet their health care costs to meet their deductible? The only time you are allowed to pay the health insurance premium with your HSA funds is if you are collecting Federal or State unemployment benefits or are on COBRA.

12. **Can you provide a list of qualified medical expenses?** See Tables D and E for a list of allowable and non allowable medical expenses. Please also see IRS Publication 502, which can be found in the U.S. Treasury section of this website, or at http://www.irs.gov/pub/irs-pdf/p502.pdf.

Table A
Allowable HSA Investments

Allowable HSA Investments
➔ Bank Accounts
➔ Annuities
➔ Certificates of Deposit
➔ Stocks
➔ Bonds
➔ Mutual Funds
➔ Certain types of Bullion or Coins

NOTE: Your HSA custodian or trustee may restrict certain types of investments.

Not Allowable HSA Investments
➔ Collectables: including any work of art, antique, metal, gem, stamp, coin, alcoholic beverage or other personal property as described in Section 408(m)(3) of the Internal Revenue Code
➔ Life Insurance Contracts

Table B
Allowable "Catch-Up" Contributions

Allowable "Catch-Up" Contributions	
Tax Year 2004	Up to $500.00
Tax Year 2005	Up to $600.00
Tax Year 2006	Up to $700.00
Tax Year 2007	Up to $800.00
Tax Year 2008	Up to $900.00
Tax Year 2009 and Beyond	Up to $1,000.00

Each spouse age 55 or older can contribute up to the maximum "catch-up" amount. If you did not have HDHP coverage for the full year, you must pro-rate your "catch-up" contribution for the number of full months you were "eligible", i.e., had HDHP coverage. If you had HSA-qualified high deductible health plan coverage for the entire year, you can deposit the entire "catch-up" amount starting with the year you turn 55, regardless of when you turn 55 during the year. If both spouses want to make "catch-up" contributions, each spouse must have a separate HSA.

In the year you enroll in Medicare, you must prorate your "catch-up" contribution for the number of months you had HSA-qualified HDHP coverage, prior to the month your Medicare enrollment is effective. You can delay enrollment in Medicare Part A only if you delay taking Social Security. You can delay taking Social Security up until age 70 and one half years old.

Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including "catch-up" amounts, to their HSA. If you are not enrolled in Medicare, you can contribute to your HSA and continue to make "catch-up" contributions.

NOTE: If you enroll in Social Security you will be automatically enrolled in Medicare Part A, which will disqualify you from contributing to an HSA.

Table C

Allowable Expenditures on Long-Term Care Insurance

In order to spend money from your HSA on long-term care, your long-term care insurance contract must:

1. Be guaranteed renewable;

2. Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed;

3. Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract, must be used only to reduce future premiums or increase future benefits;

4. Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

The amount of qualified long-term care premiums that can be paid from an HSA is limited. Beginning in 2006, the below amounts can be included as a qualified medical expense. These amounts may be adjusted annually for inflation. For 2008, these inflation-adjusted amounts, as published in IRS Publication 502, are:

2008 Allowable Long-Term Care Premium Amounts	
Age 40 or Under	Up to $290
Age 41 to 50	Up to $550
Age 51 to 60	Up to $1,110
Age 61 to 70	Up to $2,950
Age 71 or Over	Up to $3,680

Table D

Allowable Expenditures from Your HSA

There have been thousands of cases involving the many nuances of what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is for "medical care" is based on all the relevant facts and circumstances. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. The determination often hangs on the word "primarily".

NOTE: If you are receiving federal or state unemployment insurance, you may pay for your health insurance premiums out of your HSA. See next page for a list of allowable expenditures.

Table D

Allowable Expenditures from Your HSA (continued)

Allowable Expenditures from Your HSA	
Acupuncture	Alcoholism Treatment
Ambulance	Artificial Limb
Artificial Teeth	Bandages
Birth Control Pills (by prescription)	Breast Reconstruction Surgery (mastectomy)
Car Special Hand Controls (for disability)	Certain Capital Expenses (for the disabled)
Chiropractors	Christian Science Practitioners
COBRA premiums	Contact Lenses
Cosmetic Surgery (if due to trauma or disease)	Crutches
Dental Treatment	Dermatologist
Diagnostic Devices	Disabled Dependent Care Expenses
Drug Addiction Treatment (inpatient)	Drugs (prescription)
Eyeglasses	Fertility Enhancement
Guide Dog	Gynecologist
Health Institute (if prescribed by physician)	H.M.O. (certain expenses)
Hearing Aids	Home Care
Hospital Services	Laboratory Fees
Lasik Surgery	Lead-Based Paint Removal
Learning Disability Fees (prescription)	Legal Fees (if for mental illness)
Life-Care Fees	Lodging (for out-patient treatment)
Long-Term Care (medical expenses)	Long-Term Care Insurance (up to allowable limits)
Meals (associated with receiving treatments)	Medical Conferences (for ill spouse/dependent)
Medicare Premiums	Medicare Deductibles
Nursing Care	Mentally Retarded (specialized homes)
Obstetrician	Nursing Homes
Operations - Surgical	Operating Room Costs
Optician	Ophthalmologist
Organ Transplant (including donor's expenses)	Optometrist
Orthopedic Shoes	Orthodonture
Osteopath	Orthopedist
Over-the-Counter Medicines	Out-of-pocket expenses while enrolled in Medicare
Pediatrician	Oxygen and Equipment
Podiatrist	Personal Care Services (for chronically ill)
Prenatal Care	Post-Nasal Treatments
Prosthesis	Prescription Medicines
Psychiatric Care	PSA Test
Psychoanalysis	Psychiatrist
Psychologist	Psychoanalyst
Radium Treatment	Qualified Long-Term Care Services
Special Education for Children (ill or disabled)	Smoking Cessation Programs
Spinal Tests	Specialists
Sterilization	Splints
Telephones and Television for the Hearing	Surgeon
Therapy	Impaired
Treatment	Transportation Expenses for Health Care
Vitamins (if prescribed)	Vaccines
Wheelchair	Weight Loss Programs
X-Rays	Wig (hair loss from disease)

Table E
Non-Allowable Expenditures from Your HSA

Non-Allowable Expenditures from Your HSA	
Advance Payment for Future Medical Expenses	Athletic Club Membership
Automobile Insurance Premium	Babysitting (for healthy children)
Boarding School Fees	Bottled Water
Commuting Expenses for the Disabled	Controlled Substances
Cosmetics and Hygiene Products	Dancing Lessons
Diaper Service	Domestic Help
Electrolysis or Hair Removal	Funeral Expenses
Hair Transplant	Health Programs at Resorts, Health Clubs, & Gyms
Household Help	Illegal Operations and Treatments
Illegally Procured Drugs	Maternity Clothes
Medigap premiums	Nutritional Supplements
Premiums for Life or Disability Insurance	Premiums for Accident Insurance
Premiums for your HSA-qualified health plan	Scientology Counseling
Social Activities	Special Feeds/Beverages
Swimming Lessons	Teeth Whitening
Travel for General Health Improvement	Tuition in a Particular School for Problem Children

Publisher's Note

Downloaded by millions since 2004, HSA Road Rules is an easy-to-understand guidebook that distills the most important principles about HSAs.

The information contained in HSA Road Rules may not necessarily apply to your specific circumstances or take into account your individual tax or employee benefits situation. We make no claims concerning HSA Road Rules' accuracy or validation by any third party. Please consult your own tax or legal advisor for assistance.

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