

# Advanced HSAs



## Learning Objectives

- ✔ Identify each party's responsibility in determining contribution limits
- ✔ Recognize the different options for resolving excess contributions
- ✔ Understand beneficiary distribution options upon the HSA owner's death
- ✔ Recognize the financial organization's and HSA owner's reporting responsibilities

# Financial Organization Responsibilities

- Document type of contribution
- Document tax year
- Follow contribution deadline
- Don't accept more than maximum contribution amount
- Track HSA owner's age
  
- May ask for certification of eligibility
- May refuse to accept transfers and rollovers



Document contributions



Provide customer service

# HSA Owner Responsibilities



Ensure eligibility  
to contribute



Determine whether  
contributions  
exceed limit

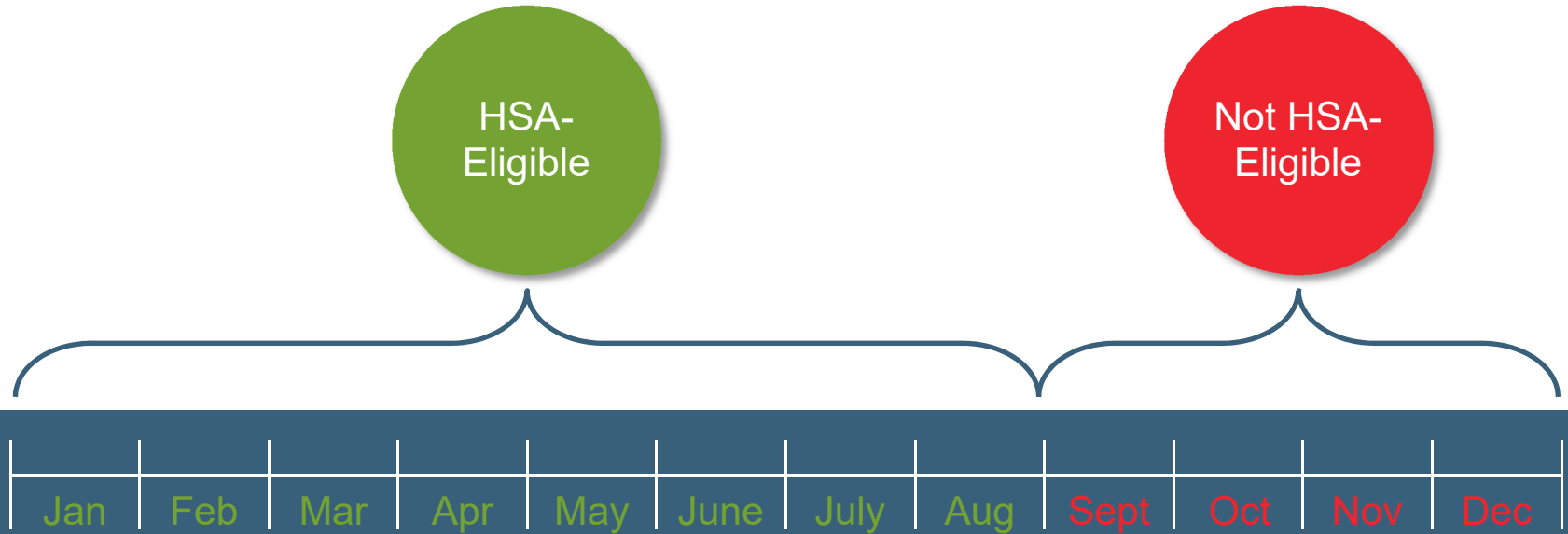


Request withdrawal  
of excess  
contribution  
and NIA

# Contribution Limit

Not Eligible on First Day of Last Month

Contribution = Sum of the monthly limits



## Not Eligible on First Day of Last Month – Example

Leah, age 28, has self-only HDHP coverage from January 1, 2019, through August 15, 2019.

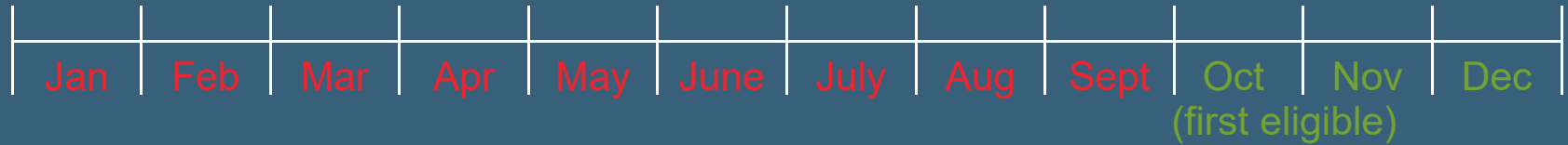
Her annual contribution limit is \$2,333.33  
( $\$3,500/12 \times 8$ ).



# Last Month Rule

## Eligible on First Day of Last Month

Contribution is greater of sum of monthly limits:



**or** the annual contribution limit:



## Last Month Rule Example

Mallory enrolls in family HDHP coverage on January 1, 2019.

She changes to self-only coverage on October 1, 2019, and has self-only coverage for rest of the year.

The sum of her monthly limits is \$6,125  $(\$7,000/12 \times 9) + (\$3,500/12 \times 3)$ , which is **greater than** the 2019 self-only contribution limit of \$3,500.

Thus, Mallory's 2019 contribution limit is \$6,125.





## Last Month Rule Example

Rick enrolls in self-only coverage on October 1, 2019, and is otherwise an eligible individual for rest of the year.

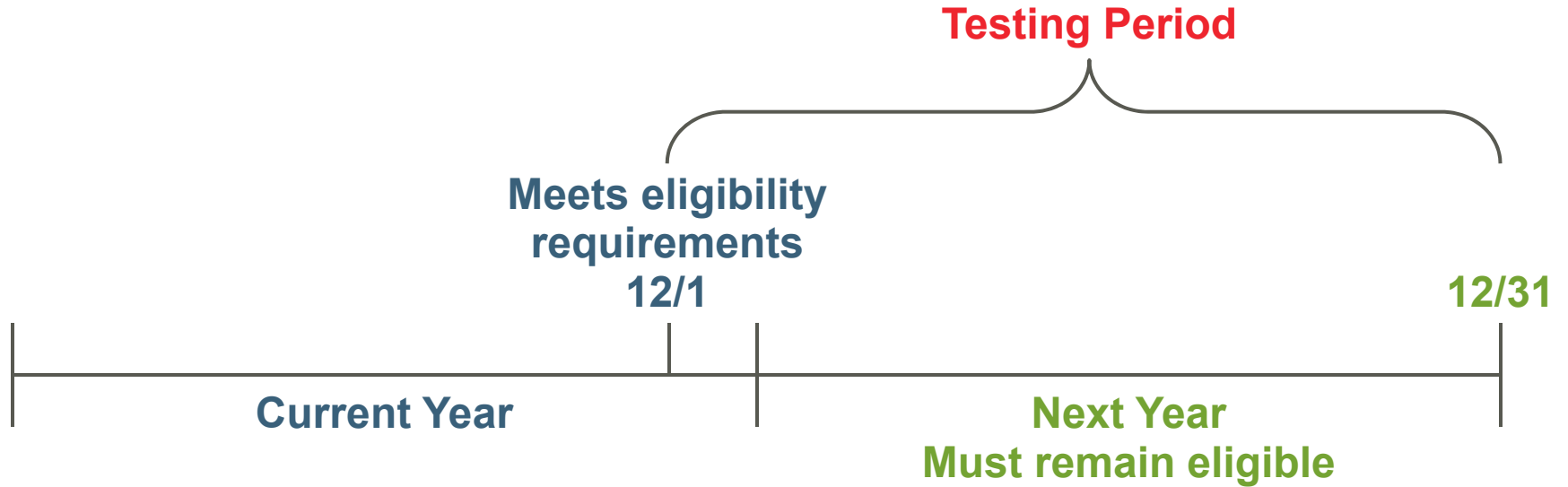
The sum of his monthly limits is \$875 ( $\$3,500/12 \times 3$ ), which is **less than** the 2019 self-only contribution limit of \$3,500.

Thus, Rick's 2019 contribution limit is \$3,500.



# Testing Period

If using last month rule, HSA owner must meet testing period to avoid taxes and penalties.



## Testing Period Example 1

Susan begins self-only coverage on July 1, 2019, and remains HSA-eligible for rest of the year.

Her contribution limit is the annual limit instead of the sum of her monthly contribution limits—as long as she remains eligible from December 1, 2019, through December 31, 2020.



## Testing Period Example 2

Susan no longer has HDHP as of January 1, 2020.

- She must calculate her 2019 contribution limit for the 6 months she is eligible.
- \$1,750 ( $\$3,500/12 \times 6$ )
- She owes taxes and penalty taxes on \$1,750 ( $\$3,500 - \$1,750$ )



# Contribution Limits – HDHP Coverage

<b>Family HDHP coverage (1 or both spouses)</b>	<b>Self-only HDHP coverage (both spouses)</b>	<b>Family HDHP coverage (not all family members are eligible)</b>
May divide maximum annual contribution amount between their HSAs	May each contribute to own HSA up to statutory limit	Eligible individual may still make family coverage contribution limit to own HSA

# Employer Contribution Responsibilities



Monitoring contributions



Forwarding contributions



Satisfying comparability rules or  
nondiscrimination testing



Reporting contributions on Form W-2

# Monitoring Contributions

Employer must determine employee eligibility and contribution limit



Covered under  
HDHP sponsored  
by employer



Covered under  
other health plans  
offered by employer  
that are not HDHPs  
(including health  
FSAs and HRAs)



Eligibility for  
catch-up  
contributions

# Health FSAs and HRAs Offered by an Employer

Health FSA or HRA coverage generally prevents HSA eligibility

## Exceptions

- Limited purpose health FSAs and HRAs
- Post-deductible health FSAs and HRAs
- Retirement HRAs
- Suspended HRAs





# Employer Comparable Contribution Rules



## Calculating comparable contributions

- Same amount
- Same percentage of deductible
- No age or service requirements



## Comparable participating employees

- Current full-time employees
- Current part-time employees
- Former employees

## Remedy for Noncomparable Contributions

- Employers may not recoup contributions to satisfy comparability rules
- Employer has until April 15 of following year to make additional comparable contributions, plus interest



# When Employee Fails to Establish an HSA



Limited IRS guidance on employers establishing HSAs for employees

# Contributions Under Cafeteria Plan



Employee may pay HDHP premiums and contribute to HSA through salary reduction



Free from income, Social Security, and Medicare taxes



Employer contributions and employee deferrals reported on Form W-2



## Employers may limit HSA providers

- May not restrict movement of assets to another organization
- May allow employees to establish HSAs at own financial organizations

# Employers Recouping Contributions

Employers may recoup contributions in certain situations



Employee was never  
HSA-eligible



Employer contributions  
erroneously exceeded  
annual contribution limit



Employer has clear  
evidence of an  
administrative  
or process error

# Employers May Recoup Contributions



## IRS Letter 2018-0033

Released December 2018



## Expanded

IRS Notice 2008-59,  
which was not intended  
to be an exhaustive  
list of reasons



## Examples

Types of errors which  
may be corrected

# Death Distributions

Determine beneficiaries



Review language in plan agreement if necessary



Stop any recurring contributions and distributions



Obtain certified copy of death certificate





# Death Distributions

Tax Treatment After HSA Owner's Death	
Spouse Beneficiary	<ul style="list-style-type: none"><li>• Treated as surviving spouse's own HSA</li><li>• Can use to pay qualifying medical expenses</li></ul>
Nonspouse Beneficiary	<ul style="list-style-type: none"><li>• Ceases to be HSA as of date of death</li><li>• All assets included in beneficiary's income for year of death</li></ul>
Estate Beneficiary	<ul style="list-style-type: none"><li>• Ceases to be HSA as of date of death</li><li>• FMV included in HSA owner's income on final tax return</li></ul>

# Excess Contributions

6% penalty tax  
on excess  
contributions



Exceed annual limit  
or made by ineligible  
individual



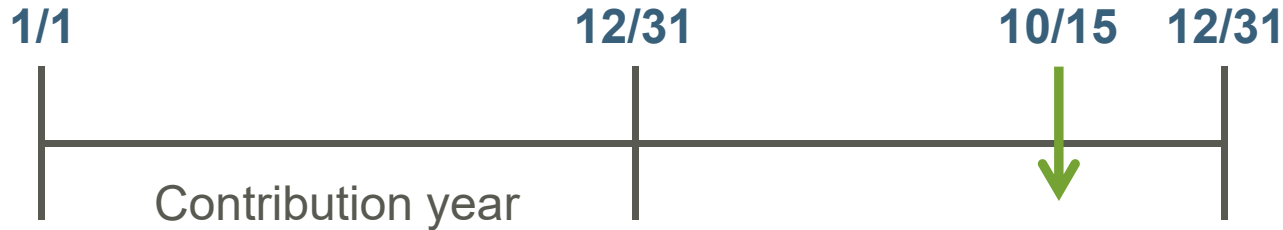
Unwanted  
contributions cannot  
be treated as excess

Employers treat  
excess as  
taxable wages  
on Form W-2



Cannot remove  
to avoid taxation  
on testing period  
failure

# Correcting Excess Contributions



## Options before deadline

- Remove **true excess** only
- Remove NIA
- Include NIA as taxable income **in distribution year**

## Options after deadline

- Pay 6% penalty tax
- Remove excess contribution (20% penalty tax if excess removal not used for qualified medical expenses)
- Carry forward for future year contribution

# NIA Calculation

$$\text{NIA} = \frac{\text{Contribution} \times \text{Total Earnings}}{\text{Adjusted Opening Balance}}$$

- Calculated on HSA containing excess contribution
- Distributed from that HSA
- Based on overall value of all investments in HSA



# Reporting Excess Removal Before Deadline

9494 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-1517		<b>2019</b> Form <b>1099-SA</b>	<b>Distributions          From an HSA,          Archer MSA, or          Medicare Advantage          MSA</b>
TRUSTEE'S/PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number					
PAYER'S TIN	RECIPIENT'S TIN	<b>1</b> Gross distribution \$	<b>2</b> Earnings on excess cont. \$		
RECIPIENT'S name		<b>3</b> Distribution code <b>2</b>	<b>4</b> FMV on date of death \$		
Street address (including apt. no.)		<b>5</b> HSA <input type="checkbox"/>		<b>Copy A          For          Internal Revenue          Service Center          File with Form 1096.</b> For Privacy Act and Paperwork Reduction Act Notice, see the <b>2019 General          Instructions for          Certain          Information          Returns.</b>	
City or town, state or province, country, and ZIP or foreign postal code		Archer MSA <input type="checkbox"/>			
Account number (see instructions)		MA MSA <input type="checkbox"/>			
Form <b>1099-SA</b>		Cat. No. 38471D		www.irs.gov/Form1099SA    Department of the Treasury - Internal Revenue Service	
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# Reporting Regular Contributions

2727     VOID     CORRECTED

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Employee or self-employed person's Archer MSA contributions made in 2019 and 2020 for 2019 \$	OMB No. 1545-1518  <div style="font-size: 2em; font-weight: bold; text-align: center;">2019</div>	<b>HSA, Archer MSA, or Medicare Advantage MSA Information</b>
		2 Total contributions made in 2019 \$	Form <b>5498-SA</b>	
TRUSTEE'S TIN	PARTICIPANT'S TIN	3 Total HSA or Archer MSA contributions made in 2020 for 2019 \$		<b>Copy A For Internal Revenue Service Center</b>  <b>File with Form 1096.</b> For Privacy Act and Paperwork Reduction Act Notice, see the <b>2019 General Instructions for Certain Information Returns.</b>
PARTICIPANT'S name		4 Rollover contributions \$	5 Fair market value of HSA, Archer MSA, or MA MSA \$	
Street address (including apt. no.)				
City or town, state or province, country, and ZIP or foreign postal code				
Account number (see instructions)				
		6 HSA <input type="checkbox"/> Archer MSA <input type="checkbox"/> MA <input type="checkbox"/> MSA <input type="checkbox"/>		

Form **5498-SA**                    Cat. No. 38467V                    [www.irs.gov/Form5498SA](http://www.irs.gov/Form5498SA)                    Department of the Treasury - Internal Revenue Service

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HSA owner files IRS Form 8889 with tax return

# Reporting Distributions

9494     VOID     CORRECTED

TRUSTEE'S/PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		<div style="font-size: 2em; font-weight: bold;">2019</div> <div style="font-weight: bold;">Form 1099-SA</div>	<p style="text-align: right;">OMB No. 1545-1517</p> <p style="text-align: center;"><b>Distributions From an HSA, Archer MSA, or Medicare Advantage MSA</b></p>
PAYER'S TIN	RECIPIENT'S TIN	<b>1</b> Gross distribution \$	<b>2</b> Earnings on excess cont. \$
RECIPIENT'S name		<b>3</b> Distribution code	<b>4</b> FMV on date of death \$
Street address (including apt. no.)		<b>5</b> HSA <input type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code			
Account number (see instructions)			

**Copy A**  
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# Exercise

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# Questions?

# Thank you for attending Advanced HSAs

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