

## Exercise

1. Who is an eligible individual?

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2. Joy begins her new job on May 1, 2019. There is a 30-day waiting period before she is covered by the HDHP. When is Joy eligible to establish an HSA?

**May 1, 2019**

**June 1, 2019**

**July 1, 2019**

3. What steps should financial organizations follow when amending opening documents?

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4. If an HSA owner fails to maintain eligibility for the entire testing period, what must he do?

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5. After completing a qualified HSA funding distribution, what is the time period the HSA owner must remain HSA-eligible to avoid paying income and penalty taxes?

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6. What are three solutions a financial organization can use to prevent an extension of credit to the HSA?

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7. After the HSA owner's death, what happens to the HSA?

Spouse beneficiary: \_\_\_\_\_

Nonspouse beneficiary: \_\_\_\_\_

Estate beneficiary: \_\_\_\_\_

8. Sally receives a distribution from her HSA at Sunset Financial on July 14, 2019, which she plans to roll over to her HSA at Vista Financial. By when must she complete the rollover of the assets? Why?

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9. Mark, age 32, was enrolled in an HSA-eligible self-only HDHP through August 19 of this year. How many months is Mark eligible to contribute to his HSA for this year?

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10. What is the 2019 annual contribution limit for an HSA owner who is age 55 or older and has family HDHP coverage?

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11. Michelle, age 65, has an HSA-eligible self-only HDHP. If Michelle enrolls in Medicare on May 1, 2019, how much will Michelle be eligible to contribute to her HSA for 2019?

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12. Michael, age 60, takes a \$5,000 distribution from his HSA to buy a boat. What are the tax consequences of Michael's distribution?

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13. Judy used her HSA debit card to pay some expenses at her doctor's office in February of this year. In June of this year, her insurance company informs her that those expenses will be covered by insurance. Judy has no other qualified medical expenses. Can her distribution from February be considered a mistaken distribution?

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14. What are the consequences of a negative HSA balance?

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15. When may the employer recoup a contribution made for an employee?

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## Exercise Answers

1. Who is an eligible individual?

**An eligible individual is an individual who is covered under an HDHP, does not have coverage under another nonHDHP, is not enrolled in Medicare, and is not eligible to be claimed as a dependent.**

2. Joy begins her new job on May 1, 2019. There is a 30-day waiting period before she is covered by the HDHP. When is Joy eligible to establish an HSA?

May 1, 2019

June 1, 2019

July 1, 2019

3. What steps should financial organizations follow when amending opening documents?

**Obtain the updated HSA plan agreement**

**Provide amendments to HSA owners**

**Place a copy of amendment in owner's file, or keep a master file**

4. If an HSA owner fails to maintain eligibility for the entire testing period, what must he do?

**The HSA owner must prorate the contribution limit for the number of months he was eligible, include the ineligible contribution as income, and pay a 10% penalty tax on the ineligible amount.**

5. After completing a qualified HSA funding distribution, what is the time period the HSA owner must remain HSA-eligible to avoid paying income and penalty taxes?

**The HSA owner must remain HSA-eligible for 12 months following the month of the transaction, with the exception of death and disability.**

6. What are three solutions a financial organization can use to prevent an extension of credit to the HSA?

**Automatically drawing assets from another account once the HSA balance drops to zero**

**Automatically moving assets from another of the HSA owner's accounts directly into the HSA as a reportable contribution**

**Paying medical expenses from a nonHSA checking account**

7. After the HSA owner's death, what happens to the HSA?

Spouse beneficiary: **The HSA is treated as the surviving spouse's HSA.**

Nonspouse beneficiary: **The HSA ceases to be an HSA.**

Estate beneficiary: **The HSA ceases to be an HSA.**

8. Sally receives a distribution from her HSA at Sunset Financial on July 14, 2019, which she plans to roll over to her HSA at Vista Financial. By when must she complete the rollover of the assets? Why?

**60 days following the day she receives the assets which is September 12, 2019. There are time limitations when the HSA owner has constructive receipt of the assets.**

9. Mark, age 32, was enrolled in an HSA-eligible self-only HDHP through August 19 of this year. How many months is Mark eligible to contribute to his HSA for this year?

**8 months (January through August)**

10. What is the 2019 annual contribution limit for an HSA owner who is age 55 or older and has family HDHP coverage?

**\$8,000**

11. Michelle, age 65, has an HSA eligible self-only HDHP. If Michelle enrolls in Medicare on May 1, 2019, how much will Michelle be eligible to contribute to her HSA for 2019?

**\$1,500 (\$4,500/12 x 4)**

12. Michael, age 60, takes a \$5,000 distribution from his HSA to buy a boat. What are the tax consequences of Michael's distribution?

**The entire distribution is subject to income taxes and a 20% penalty tax.**

13. Judy used her HSA debit card to pay some expenses at her doctor's office in February of this year. In June of this year, her insurance company informs her that those expenses will be covered by insurance. Judy has no other qualified medical expenses. Can her distribution from February be considered a mistaken distribution?

**Yes.**

14. What are the consequences of a negative HSA balance?

**The HSA ceases to be an HSA as of January 1 of that year. The HSA owner is subject to tax and a 20% penalty tax on any amount that was not used for qualified medical expenses.**

15. When may the employer recoup a contribution made for an employee?

**If the employer contributed more than the statutory limit, if the employee never was HSA-eligible, or if there is clear documentation of an administrative or process error.**