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HSA Certification Workshop

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Introduction to HSAs

Learning Objectives

After completing this section, you will be able to

- describe how a health savings account (HSA) benefits financial organizations, employers, and eligible individuals;
- explain high deductible health plan (HDHP) requirements;
- communicate HSA eligibility rules; and
- describe exceptions to HDHP coverage.

Icon Legend

Individual Exercise

Group Exercise

Group Discussion

Example

Job Aid

Additional Information

Definition of a Health Savings Account (HSA)

H ____

S ____

A ____

A product of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, HSAs became available in January 2004 and have been growing in popularity ever since.

- HSAs are designed to cover medical expenses incurred by the HSA owner, the HSA owner's spouse, and dependents.
- HSA contributions are deductible, earnings grow tax deferred, and if amounts are used for qualified medical expenses, distributions are tax-free. With these tax benefits, HSAs are a popular choice for individuals and employers dealing with the increasing costs of health insurance.
- Financial organizations may choose to offer HSA investments which are generally the same as their IRA offerings (e.g., savings accounts, mutual funds, or certificates of deposit). In addition, financial organizations may offer checking accounts and debit cards.
- An HSA owner may use his HSA to cover current medical expenses or save for later to cover future medical expenses. HSA money goes with an HSA owner even if he changes employers, changes his health insurance, or enrolls in Medicare. HSAs are not 'use it or lose it' accounts.
- HSAs are growing in popularity and being recognized by financial professionals as a retirement planning tool to supplement retirement income and to cover medical expenses and premiums during retirement.

Trends

- The HDHP/HSA combination is still growing in popularity with more than 25 million HSAs in 2018.[1]
- The amount of assets in HSAs has grown from $15.5 billion in 2012 to $53.8 billion in 2018, and is projected to be $75 billion in 2020.[1]
- Of all HSA withdrawals in 2018, 88 percent were with a debit card.[1]
- The average HSA balance is $2,764.[2]
- Health care spending in the United States continues to rise. It's expected that the next decade will see an average 5.5 percent increase in spending each year.[3]

1 "2018 Year-End HSA Market Statistics & Trends Executive Summary," Devenir Research, Devenir, February 27, 2019, accessed March 25, 2019, http://www.devenir.com/wp-content/uploads/2018-Year-End-Devenir-HSA-Research-Report-Executive-Summary.pdf

2 Paul Fronstin, Ph.D., "Health Savings Account Balances, Contributions, Distributions, and Other Vital Statistics, 2017: Statistics from the EBRI HSA Database," Employee Benefit Research Institute, EBRI Issue Brief, October 15, 2018, accessed March 25, 2019, https://www.ebri.org/content/health-savings-account-balances-contributions-distributions-and-other-vital-statistics-2017-statistics-from-the-ebri-hsa-database.

3 "National Health Expenditure Projections 2018-2027," Office of the Actuary, Centers for Medicare & Medicaid Services, accessed April 4, 2019, https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf.

HSA Benefits

The HSA benefits are different for financial organizations, employers, and eligible individuals.

Financial organizations

Financial organizations may benefit from HSAs by having

- a larger deposit base,
- expanded product offerings,
- greater cross-selling opportunities,
- additional transaction fees, and
- increased ties to insurance companies and businesses.

Employers

Employers may benefit from HSAs by

- increasing their ability to attract and retain employees,
- deducting employer contributions, and
- lowering their overall health insurance costs.

Eligible individuals

Eligible individuals may benefit from having an HSA by being able to

- carry over their HSA balances from year-to-year,
- deduct nonemployer contributions,
- pay their qualified medical expenses with pretax dollars,
- lower their out-of-pocket premium costs, and
- supplement their retirement income and out of pocket medical expenses and premiums during retirement.

HSA Eligibility

Any eligible individual may establish an HSA. 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 on another individual's tax return.

HSA rules permit anyone (including an HSA owner's employer) to contribute to an eligible individual's HSA. Individuals who contribute to an HSA are not required to have earned income and are not subject to a maximum income amount. To be eligible to make or receive HSA contributions, HSA owners must have insurance through an HDHP.

Determining HSA Eligibility

Although the IRS does not require financial organizations to verify eligibility, a financial organization may ask for proof or certification that an individual is eligible to establish an HSA.

An HSA owner may complete a form such as Ascensus' *HSA Contribution Eligibility* or *HSA Application* to certify eligibility.

High Deductible Health Plan (HDHP) Requirements

A health plan is an HDHP if the plan satisfies both an annual deductible and out-of-pocket expense requirement. The definition of an HDHP for self-only and family coverage is summarized in the chart below.

Minimum Annual Deductible*	**2019**	**2020**
Self-Only Coverage	$1,350	$1,400
Family Coverage Family coverage is a health plan covering one HSA-eligible individual and at least one other individual, irrespective of whether the other individual is an HSA-eligible individual.	$2,700	$2,800
Maximum Annual Out-of-Pocket*	**2019**	**2020**
Self-Only Coverage	$6,750	$6,900
Family Coverage	$13,500	$13,800

* The limits are subject to annual cost-of-living adjustments (COLAs), which generally are released in the second quarter for the following year.

Although individuals may have family coverage under an HDHP, individuals may not have a "family HSA." An HSA is an individual account.

Establishing an HSA

Daphne is a participant in an HSA-eligible HDHP. She is married to James, who is covered under her family HDHP. They are both covered under an HSA-eligible HDHP, so they both may open an HSA in their own name, if they meet the other requirements.

Exceptions to HDHP Coverage

Exceptions to the HDHP-only coverage rule exist for coverage for accidents, disability, dental care, vision care, long-term care, permitted insurance, preventive care, certain prescription drug plans, and certain health flexible spending accounts that are not part of an HDHP.

Permitted Insurance

Permitted insurance includes

- insurance covering specific diseases or illnesses;
- liabilities incurred under workers' compensation laws, tort liabilities, or liabilities related to ownership or use of property; and
- a fixed payment for hospitalization.

The IRS clarified that prescription drug benefits are not considered permitted insurance or permitted coverage. Consequently, an individual who covered by both an HDHP and by a prescription drug plan is not an eligible individual unless the prescription drug coverage also is an HDHP.

An individual may have coverage under a nonHDHP as long as the deductible equals or exceeds the statutory minimum HDHP deductible (Notice 2008-59, Q&A 7).

Preventive Care

Preventive care is not subject to the deductible limit that applies to other medical services provided under an HDHP. Thus, an HDHP may provide benefits for preventive care before the deductible for that year is met.

Although preventive care generally cannot include the treatment of an existing illness or condition, there is an exception for a preventive care service or screening that also includes treatment of a related condition during the procedure.

Preventive care includes, but is not limited to, the following.

- Periodic health evaluations, including test and diagnostic procedures ordered in connection with routine examinations, such as annual physicals
- Routine prenatal and well-child care
- Child and adult immunizations
- Tobacco cessation programs
- Obesity weight-loss program
- Screening services

Certain Prescription Drug Plans

Another exception exists for certain prescription drug plans. If individuals use discount cards to obtain health care services or products at a reduced price (e.g., pharmacy cards), they are still HSA-eligible if they are required to pay health care costs (taking into account the discount) until the HDHP deductible is satisfied.

Certain Health Spending Accounts (FSAs or Cafeteria Plans)

If an individual is covered by an HDHP and is entitled to receive payment or reimbursement from a health flexible spending arrangement (FSA) for medical expenses incurred before the deductible of the HDHP is satisfied, the individual generally is not an eligible individual for purposes of making contributions to an HSA.

The exceptions to this rule are health FSAs or health reimbursement arrangements (HRAs) that are limited-purpose arrangements that pay or reimburse, pursuant to a written document, for accidents, disability, vision care, dental care, child care, and preventive care. Otherwise, individuals or employers typically must choose whether to participate in an FSA or contribute to an HSA each year.

An individual may be eligible to make or receive HSA contributions while also being covered by one or more of the following arrangements.

- Limited-purpose FSA or HRA
- Suspended HRA
- Post-deductible FSA or HRA
- Retirement HRA

HDHP Coverage That Begins Midmonth

Eligibility to establish an HSA is determined on a monthly basis, based on HDHP status as of the first day of the month. If HDHP coverage begins midmonth, an otherwise eligible individual is eligible to have an HSA on the first day of the month following the month HDHP coverage began.

HSA Eligibility

Jack begins his HDHP coverage on March 13, 2019. When will he become eligible to establish an HSA? Why?

Exercise: Introduction to HSAs

Answer the following questions.

1. HSAs are designed to cover medical expenses incurred by whom?

2. Complete the chart.

Minimum Annual Deductible	2019	2020
Self-Only Coverage		
Family Coverage		
Maximum Annual Out-of-Pocket	**2019**	**2020**
Self-Only Coverage		
Family Coverage		

Establishing an HSA

Learning Objectives

After completing this section, you will be able to

- summarize the HSA opening documents, and
- identify the requirements for amending HSA documents.

Establishing an HSA

The first step in establishing an HSA with the eligible individual is to provide information without giving tax advice.

- Explain the rules, but do not apply the rules to the individual's situation.
- Describe the HSA investment options available at your financial organization.

Second, to establish an HSA, the financial organization must provide a plan agreement. Financial organizations may take one of several approaches to HSA documentation.

- IRS HSA model document Form 5305-B, *Health Savings Trust Account*, or Form 5305-C, *Health Savings Custodial Account*
- Custom-designed document
- Customized Form 5305-B or 5305-C from a forms vendor

If required by the financial organization,

- complete an HSA application,
- hand out an HSA disclosure statement, and
- hand out any additional regulatory documents.

Once each party has signed and received the required documentation, an HSA has been established. At this point, the HSA is ready to be funded.

As previously mentioned, an HSA is an individual account. A joint HSA is not permitted. If a husband and wife are both eligible individuals and choose to make HSA contributions, each spouse must establish his or her own HSA.

HSA Application

Most financial organizations require an individual to complete an application when establishing an HSA to gather information about the HSA owner. To accurately administer the HSA, the application often requests the following information about the HSA owner.

- Legal name
- Taxpayer identification number
- Address
- Date of birth

Ascensus' HSA *Simplifier*®

HSA Simplifier®

HEALTH SAVINGS ACCOUNT APPLICATION

PART 1. HSA OWNER

Name *(First/MI/Last)* ______________________________
Address Line 1 ______________________________
Address Line 2 ______________________________
City/State/ZIP ______________________________
Social Security Number ______________________________
Date of Birth ______________ Phone ______________
Email Address ______________________________
Account Number______________________________

PART 2. HSA TRUSTEE

To be completed by the HSA trustee

Name______________________________
Address Line 1______________________________
Address Line 2______________________________
City/State/ZIP ______________________________
Phone ________________ Organization Number ________

☐ *This is an amendment to an existing HSA.*
☐ *This HSA contains managed investments as described in the Trustee Management of Investment section of the agreement.*

PART 3. CONTRIBUTION INFORMATION

Contribution Amount ____________________ Contribution Date ____________

CONTRIBUTION TYPE *(Select one)*

☐ **1. Regular** *(Includes catch-up contributions as well as qualified HSA funding distributions from an IRA)*
Contribution for Tax Year ________ *(Qualified HSA funding distributions from an IRA must be made for the current tax year)*

☐ **2. Rollover** *(Distribution from an HSA or Archer MSA that is being deposited into this HSA)*
By selecting this transaction, I irrevocably designate this contribution as a rollover.

☐ **3. Transfer** *(Direct movement of assets from an HSA or Archer MSA into this HSA)*

PART 4. INVESTMENT AND DEPOSIT INFORMATION

INVESTMENT INFORMATION *(Complete this section as applicable.)*

Investment Description	Quantity or Amount	Investment Number	Term or Maturity Date	Interest Rate

DEPOSIT METHOD

☐ **Cash or Check** *(If the contribution type is transfer, the check must be from a financial organization made payable to the trustee for this HSA.)*

☐ **Internal Account**
Account Number ______________________________ Type *(e.g., checking, savings, HSA)* ____________________

☐ **External Account** *(e.g., EFT, ACH, wire) (Additional documentation may be required and fees may apply.)*
Name of Organization Sending the Assets ____________________________ Routing Number *(Optional)* ____________
Account Number ______________________________ Type *(e.g., checking, savings, HSA)* ____________________

Deposit Taken by ________________________

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Name of HSA Owner ____, Account Number ______________________

PART 5. BENEFICIARY DESIGNATION

I designate that upon my death, the assets in this account be paid to the beneficiaries named below. The interest of any beneficiary that predeceases me terminates completely, and the percentage share of any remaining beneficiaries will be increased on a pro rata basis. If no beneficiaries are named, my estate will be my beneficiary.

☐ I elect not to designate beneficiaries at this time and understand that I may designate beneficiaries at a later date.

PRIMARY BENEFICIARIES *(The total percentage designated must equal 100%. If more than one beneficiary is designated and no percentages are indicated, the beneficiaries will be deemed to own equal share percentages in the HSA.)*

Name ____________________ Name ____________________
Address ____________________ Address ____________________
City/State/ZIP ____________________ City/State/ZIP ____________________
Date of Birth __________ Relationship __________ Date of Birth __________ Relationship __________
Tax ID *(SSN/TIN)* __________ Percent Designated ______ Tax ID *(SSN/TIN)* __________ Percent Designated ______

Name ____________________ Name ____________________
Address ____________________ Address ____________________
City/State/ZIP ____________________ City/State/ZIP ____________________
Date of Birth __________ Relationship __________ Date of Birth __________ Relationship __________
Tax ID *(SSN/TIN)* __________ Percent Designated ______ Tax ID *(SSN/TIN)* __________ Percent Designated ______

CONTINGENT BENEFICIARIES *(The total percentage designated must equal 100%. If more than one beneficiary is designated and no percentages are indicated, the beneficiaries will be deemed to own equal share percentages in the HSA. The balance in the account will be payable to these beneficiaries if all primary beneficiaries have predeceased the HSA owner.)*

Name ____________________ Name ____________________
Address ____________________ Address ____________________
City/State/ZIP ____________________ City/State/ZIP ____________________
Date of Birth __________ Relationship __________ Date of Birth __________ Relationship __________
Tax ID *(SSN/TIN)* __________ Percent Designated ______ Tax ID *(SSN/TIN)* __________ Percent Designated ______

Name ____________________ Name ____________________
Address ____________________ Address ____________________
City/State/ZIP ____________________ City/State/ZIP ____________________
Date of Birth __________ Relationship __________ Date of Birth __________ Relationship __________
Tax ID *(SSN/TIN)* __________ Percent Designated ______ Tax ID *(SSN/TIN)* __________ Percent Designated ______

☐ *Check here if additional beneficiaries are listed on an attached addendum.* Total number of addendums attached to this HSA __________

SAMPLE

PART 6. SPOUSAL CONSENT

Spousal consent should be considered if either the trust or the residence of the HSA owner is located in a community or marital property state.

CURRENT MARITAL STATUS

☐ **I Am Not Married –** I understand that if I become married in the future, I should review the requirements for spousal consent.

☐ **I Am Married –** I understand that if I choose to designate a primary beneficiary other than or in addition to my spouse, my spouse should sign below.

CONSENT OF SPOUSE

I am the spouse of the above-named HSA owner. I acknowledge that I have received a fair and reasonable disclosure of my spouse's property and financial obligations. Because of the important tax consequences of giving up my interest in this HSA, I have been advised to see a tax professional.

I hereby relinquish any interest that I may have in this HSA and consent to the beneficiary designation indicated above. I assume full responsibility for any adverse consequences that may result.

X ____________________ ______________
Signature of Spouse Date *(mm/dd/yyyy)*

X ____________________ ______________
Signature of Witness Date *(mm/dd/yyyy)*

PART 7. SIGNATURES

Important: *Please read before signing.*

I understand the eligibility requirements for the type of HSA contribution I am making, and I state that I do qualify to make the contribution. I have received a copy of the Health Savings Account Application, the 5305-B Trust Account Agreement, and the Disclosure Statement. I understand that the terms and conditions that apply to this HSA are contained in this Application and the HSA Trust Account Agreement. I agree to be bound by those terms and conditions.

I assume complete responsibility for

- determining that I am eligible for an HSA each year I make a contribution,
- ensuring that all contributions I make are within the limits set forth by the tax laws, and
- the tax consequences of any contributions (including rollover contributions) and distributions.

X ____________________ ______________
Signature of HSA Owner Date *(mm/dd/yyyy)*

X ____________________ ______________
Signature of Witness Date *(mm/dd/yyyy)*

X ____________________ ______________
Signature of Trustee Date *(mm/dd/yyyy)*

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Beneficiary Designation

When establishing an HSA, the HSA owner may wish to designate beneficiaries. This may be included as part of the HSA application or a separate beneficiary designation form.

A financial organization may allow an HSA owner to name multiple levels of beneficiaries, as described below.

Primary Beneficiaries – Receive the HSA assets after the HSA owner's death

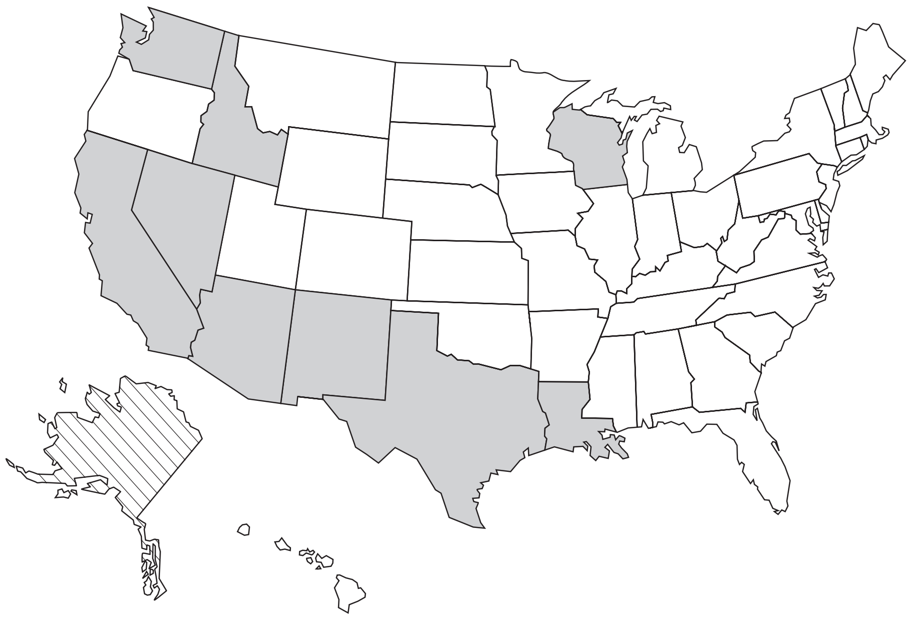
Contingent Beneficiaries – Receive the HSA assets after the HSA owner's death if all the primary beneficiaries die before the HSA owner

When an HSA owner designates **multiple beneficiaries**, each beneficiary receives a portion of the decedent's HSA balance. The financial organization should verify that each beneficiary designation level totals 100 percent. If the HSA owner does not designate how the financial organization should divide the HSA assets, the beneficiaries generally will share equally in the assets. The named beneficiary must survive the HSA owner to be entitled to the assets. If the beneficiary dies before the HSA owner, the assets will not pass to the named beneficiary's estate.

Spousal Consent

Some states have community or marital property laws that govern the property rights of married individuals.

A beneficiary designation form may allow the spouse to waive community or marital property rights to the HSA. This waiver is essential in community or marital property states when the HSA owner wishes to name a beneficiary other than or in addition to the spouse.



Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin have community or marital property laws.

In Alaska, the couple must choose to have these laws apply.

Signatures

Many HSA applications contain a signature section that must be signed by both parties (i.e., HSA owner and financial organization) to establish the HSA. Language may be included as confirmation that the HSA owner has received the required documents.

Plan Agreement

When opening an HSA, the financial organization must provide an up-to-date plan agreement, which serves as the contract between the financial organization and the individual for whom the HSA is created.

Both parties must enter into an agreement by signing either the plan agreement or application. After the document is signed, the financial organization must

- provide a copy to the HSA owner,
- retain a copy or a signed statement of receipt in the HSA owner's file, and
- amend the document as required.

If the HSA owner does not designate beneficiaries, the HSA plan agreement may identify a default beneficiary.

Group discussion

What is the default beneficiary in your plan agreement?

HEALTH SAVINGS TRUST ACCOUNT AGREEMENT

Form 5305-B under section 223(a) of the Internal Revenue Code.

FORM (Rev. October 2016)

The account owner named on the application is establishing this health savings account (HSA) exclusively for the purpose of paying or reimbursing qualified medical expenses of the account owner, his or her spouse, and dependents. The account owner represents that, unless this account is used solely to make rollover contributions, he or she is eligible to contribute to this HSA; specifically, that he or she: (1) is covered under a high deductible health plan (HDHP); (2) is not also covered by any other health plan that is not an HDHP (with certain exceptions for plans providing preventive care and limited types of permitted insurance and permitted coverage); (3) is not enrolled in Medicare; and (4) cannot be claimed as a dependent on another person's tax return.

The account owner has assigned this trust account the sum indicated on the application.

The account owner and the trustee make the following agreement:

ARTICLE I

1. The trustee will accept additional cash contributions for the tax year made by the account owner or on behalf of the account owner (by an employer, family member, or any other person). No contributions will be accepted by the trustee for any account owner that exceeds the maximum amount for family coverage plus the catch-up contribution.
2. Contributions for any tax year may be made at any time before the deadline for filing the account owner's federal income tax return for that year (without extensions).
3. Rollover contributions from an HSA or an Archer Medical Savings Account (Archer MSA) (unless prohibited under this agreement) need not be in cash and are not subject to the maximum annual contribution limit set forth in Article II.
4. Qualified HSA distributions from a health flexible spending arrangement or health reimbursement arrangement must be completed in a trustee-to-trustee transfer and are not subject to the maximum annual contribution limit set forth in Article II.
5. Qualified HSA funding distributions from an individual retirement account must be completed in a trustee-to-trustee transfer and are subject to the maximum annual contribution limit set forth in Article II.

ARTICLE II

1. For calendar year 2011, the maximum annual contribution limit for an account owner with single coverage is $3,050. This amount increases to $3,100 in 2012. For calendar year 2011, the maximum annual contribution limit for an account owner with family coverage is $6,150. This amount increases to $6,250 in 2012. These limits are subject to cost-of-living adjustments after 2012.
2. Contributions to Archer MSAs or other HSAs count toward the maximum annual contribution limit to this HSA.
3. For calendar year 2009 and later years, an additional $1,000 catch-up contribution may be made for an account owner who is at least age 55 or older and not enrolled in Medicare.
4. Contributions in excess of the maximum annual contribution limit are subject to an excise tax. However, the catch-up contributions are not subject to an excise tax.

ARTICLE III

It is the responsibility of the account owner to determine whether contributions to this HSA have exceeded the maximum annual contribution limit described in Article II. If contributions to this HSA exceed the maximum annual contribution limit, the account owner shall notify the trustee that there exist excess contributions to the HSA. It is the responsibility of the account owner to request the withdrawal of the excess contribution and any net income attributable to such excess contribution.

ARTICLE IV

The account owner's interest in the balance in this trust account is nonforfeitable.

ARTICLE V

1. No part of the trust funds in this account may be invested in life insurance contracts or in collectibles as defined in section 408(m).
2. The assets of this account may not be commingled with other property except in a common trust fund or common investment fund.
3. Neither the account owner nor the trustee will engage in any prohibited transaction with respect to this account (such as borrowing or pledging the account or engaging in any other prohibited transaction as defined in section 4975).

ARTICLE VI

1. Distributions of funds from this HSA may be made upon the direction of the account owner.
2. Distributions from this HSA that are used exclusively to pay or reimburse qualified medical expenses of the account owner, his or her spouse, or dependents are tax-free. However, distributions that are not used for qualified medical expenses are included in the account owner's gross income and are subject to an additional 20 percent tax on that amount. The additional 20 percent tax does not apply if the distribution is made after the account owner's death, disability, or reaching age 65.
3. The trustee is not required to determine whether the distribution is for the payment or reimbursement of qualified medical expenses. Only the account owner is responsible for substantiating that the distribution is for qualified medical expenses and must maintain records sufficient to show, if required, that the distribution is tax-free.

ARTICLE VII

If the account owner dies before the entire interest in the account is distributed, the entire account will be disposed of as follows:

1. If the beneficiary is the account owner's spouse, the HSA will become the spouse's HSA as of the date of death.
2. If the beneficiary is not the account owner's spouse, the HSA will cease to be an HSA as of the date of death. If the beneficiary is the account owner's estate, the fair market value of the account as of the date of death is taxable on the account owner's final return. For other beneficiaries, the fair market value of the account is taxable to that person in the tax year that includes such date.

ARTICLE VIII

1. The account owner agrees to provide the trustee with information necessary for the trustee to prepare any report or return required by the IRS.
2. The trustee agrees to prepare and submit any report or return as prescribed by the IRS.

ARTICLE IX

Notwithstanding any other article that may be added or incorporated in this agreement, the provisions of Articles I through VIII and this sentence are controlling. Any additional article in this agreement that is inconsistent with section 223 or IRS published guidance will be void.

Disclosure Statement

Financial organizations are not required to provide HSA owners with disclosure statements. To provide good service, financial organizations should provide their clients with disclosure statements that explain the current HSA rules.

Financial organizations may use

- IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*, or
- a specifically drafted HSA disclosure statement from a forms provider.

SPECIFIC INSTRUCTIONS

Article XI – Article XI and any that follow it may incorporate additional provisions that are agreed to by the account owner and trustee. The additional provisions may include, for example, definitions, restrictions on rollover contributions from HSAs or Archer MSAs (requiring a rollover not later than 60 days after receipt of a distribution and limited to one rollover during a one-year period), investment powers, voting rights, exculpatory provisions, amendment and termination, removal of trustee, trustee's fees, state law requirements, treatment of excess contributions, distribution procedures (including frequency or minimum dollar amount), use of debit, credit, or stored-value cards, return of mistaken distributions, and descriptions of prohibited transactions. Attach additional pages if necessary.

DISCLOSURE STATEMENT

REQUIREMENTS OF AN HSA

A. **Cash Contributions –** Your contribution must be in cash, unless it is a rollover contribution.

B. **Maximum Contribution –** The total amount that may be contributed to your HSA for any taxable year is the sum of the limits determined separately for each month. The determination for each month is based on whether, as of the first day of such month, you are eligible to contribute and whether you have self-only or family coverage under a high deductible health plan (HDHP). If you have self-only coverage, the maximum monthly contribution is 1/12 of $3,450 (for 2018) or $3,500 (for 2019). If you have family coverage, the maximum monthly contribution is 1/12 of $6,900 (for 2018) or $7,000 (for 2019). These limits are subject to cost-of-living increases. In addition, if you have attained age 55 before the close of the taxable year, the annual contribution limit is increased by an additional amount not to exceed $1,000 each year. The annual limit is decreased by aggregate contributions made to an Archer MSA and by any qualified HSA funding distributions from an IRA deposited into the HSA.

   If you become HSA-eligible after the beginning of the year, you may make a full year's contribution up to the statutory contribution limit as long as you maintain eligibility during the testing period. The testing period begins the last month of the initial eligibility year and ends at the end of the 12-month period following that month. If you do not remain eligible during the testing period, you must include in your gross income the contributions made for the months that you were not otherwise eligible and pay a 10 percent penalty tax on the amount.

C. **Contribution Eligibility –** You are an eligible individual for any month if you (1) are covered under an HDHP on the first day of such month; (2) are not also covered by any other health plan that is not an HDHP and that provides coverage for any benefit covered under the HDHP (with limited exceptions); (3) are not enrolled in Medicare; and (4) are not eligible to be claimed as a dependent on another person's tax return.

   In general, an HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. Specifically, an HDHP has an annual deductible of at least $1,350 (for 2018 and 2019) for self-only coverage and at least $2,700 (for 2018 and 2019) for family coverage. In addition, the sum of the annual out-of-pocket expenses required to be paid (deductibles, copayments, and amounts other than premiums) cannot exceed $6,650 (for 2018) or $6,750 (for 2019) for self-only coverage and $13,300 (for 2018) or $13,500 (for 2019) for family coverage. All of these dollar amounts may be adjusted annually for cost-of-living increases.

D. **Nonforfeitability –** Your interest in your HSA is nonforfeitable.

E. **Eligible Trustees –** The trustee of your HSA must be a bank, savings and loan association, credit union, or a person or entity approved by the Secretary of the Treasury.

F. **Commingling Assets –** The assets of your HSA cannot be commingled with other property except in a common trust fund or common investment fund.

G. **Life Insurance –** No portion of your HSA may be invested in life insurance contracts.

INCOME TAX CONSEQUENCES OF ESTABLISHING AN HSA

A. **HSA Deductibility –** If you are eligible to contribute to your HSA for any month during the taxable year, amounts contributed to your HSA are deductible in determining adjusted gross income up to the maximum contribution limits discussed above. The deduction is allowed regardless of whether you itemize deductions. Employer contributions to your HSA are excludable from your gross income and you cannot deduct such amounts on your tax return as HSA contributions.

B. **Contribution Deadline –** The deadline for making an HSA contribution is your tax return due date (not including extensions). You may designate a contribution as a contribution for the preceding taxable year in a manner acceptable to us. For example, if you are a calendar-year taxpayer and you make your HSA contribution on or before your tax filing deadline, your contribution is considered to have been made for the previous tax year if you designate it as such.

C. **Excess Contributions –** An excess contribution is any amount that is contributed to your HSA that exceeds the amount that you are eligible to contribute. If the excess is not corrected timely, an additional penalty tax of six percent will be imposed upon the excess amount. The procedure for correcting an excess is determined by the timeliness of the correction as identified below.

   1. **Removal Before Your Tax Filing Deadline.** An excess contribution may be corrected by withdrawing the excess amount, along with the earnings attributable to the excess, before your tax filing deadline, including extensions, for the year for which the excess contribution was made. An excess withdrawn under this method is not taxable to you, but you must include the earnings attributable to the excess in your taxable income in the year in which the contribution was made. The six percent excess contribution penalty tax will be avoided.

Amending HSA Documents

Financial organizations may need to amend their HSA plan agreements to comply with law changes. Although HSAs do not require disclosure statements, if a financial organization elects to use one, the financial organization should send an updated disclosure statement to its clients when appropriate.

Financial organizations should follow the steps below when amending opening documents.

1. Obtain the appropriately updated HSA plan agreement (e.g., Form 5305-B or Form 5305-C) or disclosure statement, as necessary, for amending purposes.

2. Provide amendments to HSA owners.

3. Place a copy of each amendment in every HSA owner's file, or place a single copy of the amendment and accompanying cover letter in a master file with a list of the HSA owners to whom the amendment was sent.

Law Changes That May Require Amendments

Tax Relief and Health Care Act of 2006

The Tax Relief and Health Care Act of 2006 made significant changes to HSA contribution and portability rules, which generally were effective January 1, 2007. Some of the provisions are listed below.

- Annual contributions may exceed the HDHP deductible amount up to the statutory annual limit.
- Individuals may make a full-year contribution even if they become eligible after the beginning of the year.
- Individuals may move Traditional or Roth IRA assets into an HSA.

To take advantage of these contribution and portability rules, the IRS verbally confirmed that financial organizations should incorporate the rules in a written document (i.e., plan agreement or disclosure statement). Because of this guidance, Ascensus created an HSA plan agreement and disclosure statement that incorporates the provisions created under the Tax Relief and Health Care Act of 2006. Financial organizations using these forms may allow HSA owners to take advantage of these contribution and portability rules.

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act created the following HSA provisions, which became effective January 1, 2011.

- Before January 1, 2011, nonqualified HSA distributions were subject to a 10 percent IRS penalty tax. Effective January 1, 2011, the penalty tax for taking a nonqualified HSA distribution increased to 20 percent.
- Before January 1, 2011, individuals could take qualified distributions from their HSAs, Archer medical savings accounts (MSAs), and health FSAs to pay for over-the-counter medications (i.e., nonprescription medications). Effective January 1, 2011, individuals can no longer take qualified distributions to pay for nonprescription medications. All medications (including over-the-counter medications) must be prescribed by a physician to be considered a qualified medical expense for HSAs, MSAs, and health FSAs.

Exercise: Establishing an HSA

Answer the following questions.

1. What are the three options financial organizations may use for the HSA plan agreement?

2. If financial organizations choose to provide their clients with a disclosure statement that explains the current HSA rules, what are the two options that may be used?

HSA Funding

Learning Objectives

After completing this section, you will be able to

- state the HSA regular contribution and catch-up contribution limits,
- describe the last month rule,
- discuss how changes during the year in high deductible health plan (HDHP) coverage affect contributions,
- discuss how Medicare affects eligibility,
- distinguish the regular contribution deadline,
- cite the rules for prior-year contributions,
- explain a qualified HSA funding distribution, and
- ensure accurate regular contribution reporting.

HSA Contribution Limits

Regular Contributions

Anyone may contribute to the HSA of an eligible individual, including the HSA owner's employer. The contribution limit for the year depends on the type of HDHP coverage that the individuals have.

Because eligibility is determined on the first day of each month, an individual may be eligible only for a portion of the year. If so, the HSA owner may make a contribution equal to the sum of the monthly contribution limits.

If both spouses are covered under an HDHP with family coverage, both can have an HSA if they meet the other requirements. The contribution limit must be split between the two of them in any division that they choose.

Regular Contributions*	2019	2020
Self-Only Coverage Annual Limit	$3,500	$3,550
Family Coverage Annual Limit	$7,000	$7,100

* The limits are subject to annual COLAs, which generally are released in the second quarter for the following year.

Regular Contributions

George, age 46, enrolls in an HSA eligible family HDHP covering himself and his wife, Joann, age 45, beginning January 1, 2019. On October 3, 2019, George left his company to take a new job, and his new family health plan has a $1,000 deductible. Which months is George eligible to contribute to his HSA with his new employer?

What is the total amount George can contribute to his HSA for 2019?

If George contributes the total amount he is allowed for 2019, how much can Joann contribute to her HSA for 2019? Why?

Catch-up Contributions

Eligible individuals may make catch-up contributions if they will be at least age 55 by the end of the calendar year. The catch-up contributions are in addition to the annual limit.

Because eligibility is determined on the first day of each month, an individual may be eligible only for a portion of the year. If so, the HSA owner may make a catch-up contribution equal to the sum of the monthly contribution limits.

For eligible individuals who are married and have family coverage, each spouse who is age 55 or older may make a catch-up contribution to the spouse's own HSA. They cannot split the catch-up contribution between their HSAs; the catch-up contribution must be made to each eligible individual's HSA.

Catch-up Contributions	2019	2020
Annual Limit	$1,000	$1,000

Catch-up Contributions

Melissa, age 57, and David, age 55, are married. They have family coverage under Melissa's HDHP and are otherwise eligible individuals.

What is the maximum amount Melissa can contribute to her HSA for 2019? Why?

If Melissa makes the maximum contribution to her HSA, what amount can David contribute to his HSA? Why?

HSA Assets are Nonforfeitable

An HSA owner's interest in an HSA generally is nonforfeitable. For example, on January 9, 2019, an employer makes the maximum annual contribution to its employees' HSAs. On February 15, 2019, one employee terminates employment. The employer may not recoup from that employee's HSA any portion of the employer contribution that was made on January 9, 2019.

Aggregated Contributions

All contributions made to an individual's HSA, whether made by the employer or employee, are aggregated for purposes of applying the contribution limit. The annual contribution limit also is decreased by the aggregate amount of Archer MSA contributions and qualified HSA funding distributions (discussed later) made for that same calendar year.

Aggregated Contributions

Kristen, age 45, is single. She has self-only coverage under her HDHP. Kristen's employer makes an annual contribution to her HSA of $1,000.

What is the maximum amount Kristen can contribute to her HSA for 2019? Why?

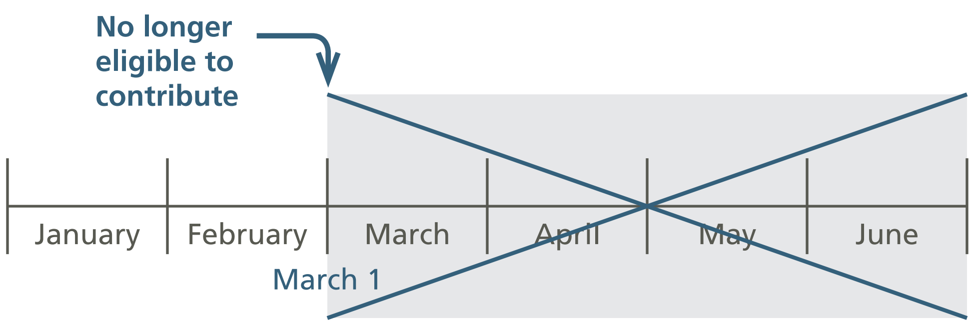
HSA Contributions and Medicare

HSA contribution eligibility does not end at a certain age. However, an individual is no longer eligible to contribute for the month, beginning with the month the individual is enrolled in Medicare.

This can be complicated as most individuals are automatically enrolled in Medicare the month they reach age 65 if they are receiving Social Security benefits, even if they don't elect to be enrolled.

HSA Contributions and Medicare

Beth, age 65, has an HSA-eligible HDHP with self-only coverage. If Beth enrolls in Medicare on March 1, 2019, her 2019 contribution limit equals 2/12 of the annual statutory limit. She has until the 2019 tax return deadline (April 15, 2020) to make her contribution for 2019.



How much can Beth contribute for 2019 to her HSA?

Henry, age 65, and Suzie, age 63, are married. Henry is retired and has been enrolled in Medicare since April 1, 2019. Suzie is working and has family HDHP coverage through her employer. How much can each contribute to an HSA for 2019?

Last Month Rule

If an HSA owner is not an eligible individual for the entire year, she may still make the maximum contribution for the year if she meets the testing period requirements (discussed on the next page).

If an individual is HSA-eligible on the first day of the last month of the individual's taxable year (December 1 for most taxpayers), the individual's HSA contribution limit for the year is the *greater of*

- the sum of the monthly limits, which are determined separately for each month based on the individual's eligibility on the first day of each month, plus catch-up contributions for each month if applicable; or
- the statutory annual contribution limit, plus catch-up contributions, if applicable.

Last Month Rule

Anna, age 36, enrolled in self-only coverage on April 1, 2019, and is otherwise an eligible individual for the rest of the year.

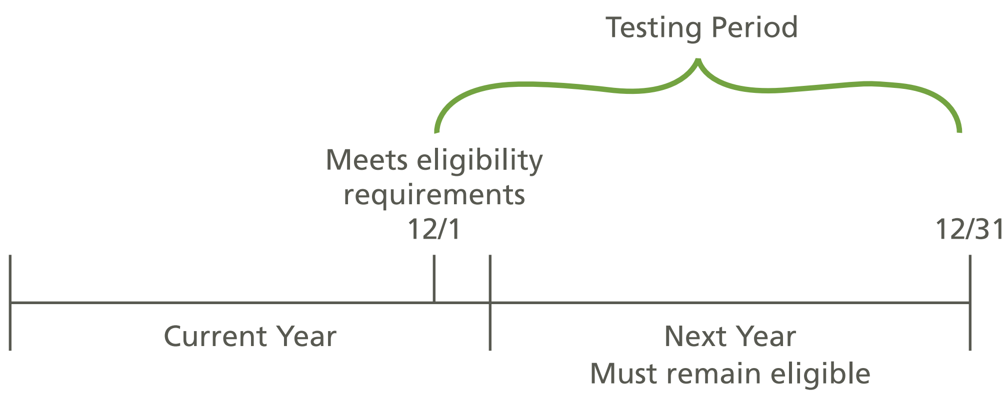
The 2019 annual contribution limit for self-only coverage is $3,500. The sum of Anna's monthly contribution limits is $2,625 ($3,500/12 x 9).

Anna's contribution limit for 2019 is $3,500 because it is greater than the sum of her monthly contribution limits.

Testing Period

The testing period runs from the first day of the last month of the initial eligibility year (December 1) through the end of the following year (December 31).

If an HSA owner fails to maintain eligibility for the entire testing period, he must prorate the contribution limit for the number of months he was eligible. The ineligible contribution may not be removed as an excess contribution. The HSA owner must include the ineligible contribution in gross income and pay a 10 percent penalty tax on the ineligible amount.



Testing Period

Tony, age 28, enrolls in self-only coverage on June 1, 2019, and is otherwise an eligible individual for the rest of the year.

Tony's contribution limit is the annual limit ($3,500) because it is greater than the sum of his monthly contribution limits ($3,500/12 x 7 = $2,041.67), as long as he remains eligible from December 1, 2019, through December 31, 2020.

In April 2020, Tony changes jobs and is no longer HSA-eligible. Because Tony failed to remain HSA-eligible through the testing period, he must include $1,458.33 ($3,500 – $2,041.67) in gross income and pay an additional 10% penalty tax ($145.83).

Change in Coverage During the Year

For purposes of the last month rule, an eligible individual is generally treated as being covered by the same HDHP coverage (self-only or family) for the entire year, as the coverage held on December 1. An eligible individual is not required to decrease the annual contribution limit if the coverage held on December 1 would result in a lower annual contribution limit.

Switch from Family Coverage to Self-Only Coverage

Matthew, age 35, enrolled in family HDHP coverage on January 1, 2019, and was otherwise an eligible individual. Matthew changed to self-only HDHP coverage on September 1, 2019, and held self-only coverage as of December 1, 2019.

Matthew's 2019 contribution limit is $5,833.34 because the sum of the monthly limits is greater than the annual contribution limit for the type of coverage he had on December 1, 2019 ($3,500).

Family coverage: ($7,000/12 x 8) = $4,666.67

Self-only coverage: ($3,500/12 x 4) = $1,166.67

Sum of monthly limits: ($4,666.67 + $1,166.67) = $5,833.34

$5,833.34 (monthly limit) > $3,500 (annual limit)

Switch from Self-Only Coverage to Family Coverage

Michelle, age 43, enrolled in self-only HDHP coverage on January 1, 2019, and was otherwise an eligible individual. Michelle changed to family HDHP coverage on September 1, 2019, and held family coverage as of December 1, 2019.

Michelle's 2019 contribution limit is $7,000 because the annual contribution limit for the type of coverage she had on December 1, 2019, is greater than the sum of the monthly limits $4,666.66).

Self-only coverage: ($3,500/12 x 8) = $2,333.33

Family coverage: ($7,000/12 x 4) = $2,333.33

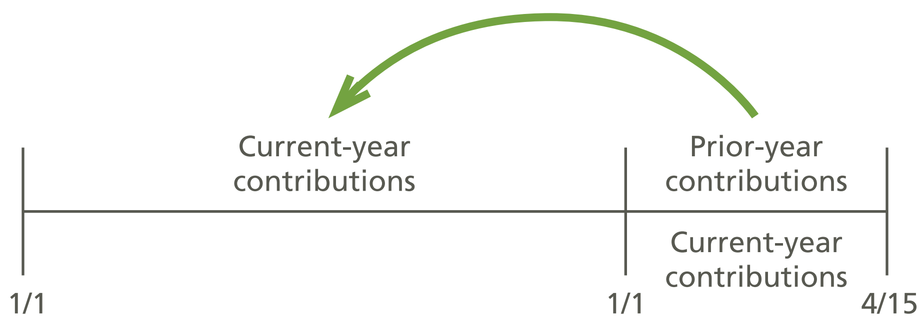
Sum of monthly limits: $2,333.33 + $2,333.33 = $4,666.66

$7,000 (annual limit) > $4,666.66 (monthly limit)

Annual Contribution Deadline

HSA contributions may be made beginning on January 1. The deadline to make annual contributions for a year is the deadline for filing that year's federal income tax return, not including extensions, (generally April 15).

- If April 15 falls on a Saturday, Sunday, or legal holiday, the deadline is extended to the next business day.
- The same deadline applies regardless of who contributes.
- Individuals eligible for only a portion of the year are still allowed to contribute up to the contribution deadline.



Prior-Year Contributions

HSA owners must make a written, irrevocable election to treat the contribution as a prior-year contribution. The HSA owner may use any written means to make a prior-year contribution.

To comply with this regulation, financial organizations should adhere to the following guidelines.

- If there is no written instruction, assume the contribution is for the current year.
- A prior-year contribution cannot be changed to a current-year contribution.
- A regular contribution made by mail is deemed timely if the envelope is postmarked by the HSA owner's tax return deadline and is accompanied by written direction.

Direct deposit contributions are made for the current year unless the financial organization receives written instruction before the contribution is made to treat it as a prior-year contribution.

HSA CONTRIBUTION AND INVESTMENT SELECTION

PART 1. HSA OWNER

Name *(First/MI/Last)* ____
Social Security Number ______________________________________
Date of Birth ___________________ Phone ____________________
Email Address ____
Account Number________________________________ Suffix _____

PART 2. HSA TRUSTEE OR CUSTODIAN

To be completed by the HSA trustee or custodian

Name ____
Address Line 1 ____
Address Line 2 ____
City/State/ZIP ____
Phone_______________________ Organization Number__________

PART 3. CONTRIBUTION INFORMATION

Contribution Amount ___________________________ Contribution Date _______________

CONTRIBUTION TYPE *(Select one)*

☐ **1. Regular** *(Includes catch-up contributions as well as qualified HSA funding distributions from an IRA)*
Contribution for Tax Year _________ *(Qualified HSA funding distributions from an IRA must be made for the current tax year)*

☐ **2. Rollover** *(Distribution from an HSA or Archer MSA that is being deposited into this HSA)*
By selecting this transaction, I irrevocably designate this contribution as a rollover.

☐ **3. Transfer** *(Direct movement of assets from an HSA or Archer MSA into this HSA)*

PART 4. INVESTMENT AND DEPOSIT INFORMATION

INVESTMENT INFORMATION *(Complete this section as applicable.)*

Investment Description	Quantity or Amount	Status *(new or existing)*	Investment Number	Term or Maturity Date	Interest Rate

DEPOSIT METHOD

☐ **Cash or Check** *(If the contribution type is transfer, the check must be from a financial organization made payable to the trustee for this HSA.)*

☐ **Internal Account**
Account Number ____ Type *(e.g., checking, savings, HSA)* ______________________________

☐ **External Account** *(e.g., EFT, ACH, wire) (Additional documentation may be required and fees may apply.)*
Name of Organization Sending the Assets ____ Routing Number *(Optional)* ___________________
Account Number ____ Type *(e.g., checking, savings, HSA)* ______________________________

Deposit Taken by ___________________________________

PART 5. SIGNATURE

I certify that all of the information provided by me is accurate and may be relied upon by the trustee or custodian. I certify that the contribution described above is eligible to be contributed to the HSA and I authorize the deposit/investment in the manner described above.

X____ ________________________________
Signature of HSA Owner Date *(mm/dd/yyyy)*

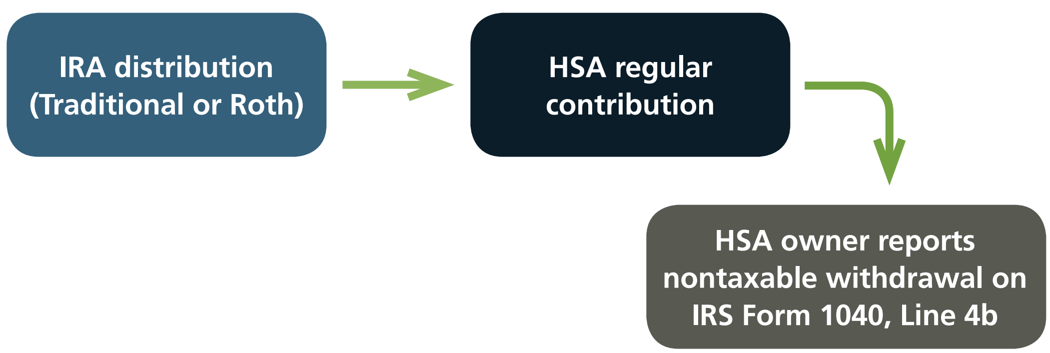
Page 1 of 2
3107 / 2614H (Rev. 10/2015)

Qualified HSA Funding Distributions

HSA owners have a one-time option to move Traditional or Roth IRA assets to an HSA. This tax-free transaction is called a qualified HSA funding distribution (HFD).

An HFD is a distribution made directly by the distributing financial organization to the receiving financial organization.

- If eligible, you generally can elect to exclude an HFD from your income once in your lifetime.
- The amount cannot exceed the annual contribution limit for the year and must be treated as a current-year contribution to the HSA.
- An HFD may be made from Traditional or Roth IRAs only—they may not be made from "ongoing" SEP or SIMPLE IRAs.
- If your IRA includes nondeductible contributions, the HFD is first considered to be paid out of pretax assets.
- If the HSA owner does not remain HSA-eligible (for reasons other than death or disability) for 12 months following the month of the transaction, she must include the qualified HSA funding distribution in income and pay a 10 percent penalty tax.



NOTE: *The instructions from IRS Form 1040,* U.S. Individual Income Tax Return, *explain the reporting requirements for a qualified HFD as follows.*

> "If all or part of the distribution is a health savings account (HSA) funding distribution (HFD), enter the total distribution on line 4a. If the total amount distributed is an HFD and you elect to exclude it from income, enter -0- on line 4b. If only part of the distribution is an HFD and you elect to exclude that part from income, enter the part that isn't an HFD on line 4b unless *Exception 2* applies to that part. Enter "HFD" next to line 4b."

Qualified HSA Funding Distribution Testing Period

Doug, age 35, has self only coverage and determines that he would like to make a qualified HSA funding distribution from his Traditional IRA. On June 14, 2019 Doug took $3,500 from his Traditional IRA and made the contribution to his HSA.

Doug must remain eligible until June 30, 2020. If Doug does not remain eligible for the entire 12 months following the HSA funding distribution, he would be subject to income tax and a 10 percent penalty tax.

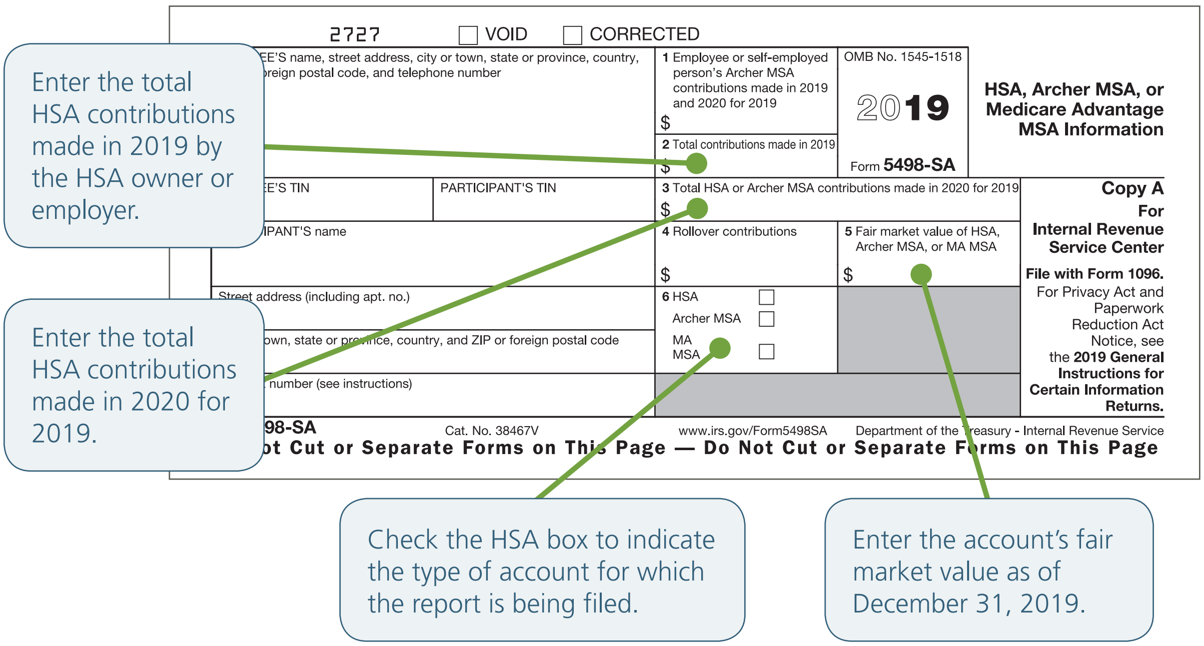
Financial Organization Contribution Responsibilities

Financial organizations must not accept annual contributions that exceed the current maximum contribution amount in effect for the year ($7,000 for 2019 and $7,100 for 2020), plus the current catch-up contribution amount ($1,000 for 2019 and for 2020) if the HSA owner is age 55 or older by the end of the calendar year.

Financial organizations are responsible for tracking the HSA owner's age for purposes of accepting catch-up contributions. Financial organizations may rely on the HSA owner's representation as to his date of birth.

Reporting Annual HSA Contributions

Financial organizations generally must send IRS Form 5498-SA, *HSA, Archer MSA, or Medicare Advantage MSA Information*, to the IRS by May 31 for each individual who maintained an HSA in the previous year. HSA owners also must receive Form 5498-SA by that same date. Financial organizations must include the following information on Form 5498-SA for HSA contributions.



NOTE: *Prior-year HSA contributions are reported twice—the first year in Box 3 and the following year in Box 2.*

Every year that a contribution is made to an HSA, the HSA owner must complete Form 8889, *Health Savings Accounts (HSAs)*, and submit it to the IRS with the HSA owner's tax return.

Reporting Prior-Year Contributions

Financial organizations report HSA prior-year contributions twice—the first year in Box 3 and the following year in Box 2.

Reporting Prior-Year Contributions

On March 28, 2019, Jaret Reynolds made a contribution of $1,800 for 2018. The financial organization would report this contribution on a 2018 Form 5498-SA in Box 3. The financial organization will report this same contribution on a 2019 Form 5498-SA in Box 2.

2727 ☐ VOID ☐ CORRECTED

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number BFS FINANCIAL ORGANIZATION 2100 SEYMOUR HIGHWAY WICHITA FALLS, TX 76301 (940) 555-9999	1 Employee or self-employed person's Archer MSA contributions made in 2018 and 2019 for 2018 $ 2 Total contributions made in 2018 $	OMB No. 1545-1518 2018 Form 5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information
TRUSTEE'S TIN 00-1111111 / PARTICIPANT'S TIN 111-22-3333	3 Total HSA or Archer MSA contributions made in 2019 for 2018 $ 1800.00		Copy A For Internal Revenue Service Center
PARTICIPANT'S name JAREET REYNOLDS	4 Rollover contributions $	5 Fair market value of HSA, Archer MSA, or MA MSA $	File with Form 1096.
Street address (including apt. no.) 1826 PEARL AVENUE City or town, state or province, country, and ZIP or foreign postal code WICHITA FALLS, TX 76301	6 HSA ☒ Archer MSA ☐ MA MSA ☐		For Privacy Act and Paperwork Reduction Act Notice, see the **2018 General Instructions for Certain Information Returns.**
Account number (see instructions)			

Form **5498-SA** Cat. No. 38467V www.irs.gov/Form5498SA Department of the Treasury - Internal Revenue Service

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2727 ☐ VOID ☐ CORRECTED

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number BFS FINANCIAL ORGANIZATION 2100 SEYMOUR HIGHWAY WICHITA FALLS, TX 76301 (940) 555-9999	1 Employee or self-employed person's Archer MSA contributions made in 2019 and 2020 for 2019 $ 2 Total contributions made in 2019 $ 1800.00	OMB No. 1545-1518 2019 Form 5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information
TRUSTEE'S TIN 00-1111111 / PARTICIPANT'S TIN 111-22-3333	3 Total HSA or Archer MSA contributions made in 2020 for 2019 $		Copy A For Internal Revenue Service Center
PARTICIPANT'S name JAREET REYNOLDS	4 Rollover contributions $	5 Fair market value of HSA, Archer MSA, or MA MSA $	File with Form 1096.
Street address (including apt. no.) 1826 PEARL AVENUE City or town, state or province, country, and ZIP or foreign postal code WICHITA FALLS, TX 76301	6 HSA ☒ Archer MSA ☐ MA MSA ☐		For Privacy Act and Paperwork Reduction Act Notice, see the **2019 General Instructions for Certain Information Returns.**
Account number (see instructions)			

Form **5498-SA** Cat. No. 38467V www.irs.gov/Form5498SA Department of the Treasury - Internal Revenue Service

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Exercise: HSA Funding

Answer the following questions.

1. Complete the chart.

Regular Contributions	2019	2020
Self-Only Coverage Annual Limit		
Family Coverage Annual Limit		

2. Jeff, age 39, and Gretchen, age 42, are married. They enroll in family coverage under Jeff's HDHP on October 1, 2019, and are otherwise eligible individuals for the rest of the year. They have decided to contribute to Gretchen's HSA. What is the maximum amount that may be contributed for 2019? Why?

HSA Distributions

Learning Objectives

After completing this section, you will be able to

- summarize the tax consequences of qualified and nonqualified distributions,
- describe ways to prevent an extension of credit to an HSA owner,
- communicate how HSA fees are handled,
- describe a mistaken distribution,
- correctly handle excess contributions,
- describe the tax treatment of the HSA after the HSA owner’s death, and
- ensure accurate distribution reporting.

HSA Distributions

HSA assets are payable on demand. There are no restrictions on when and how often an HSA owner may take HSA distributions. Financial organizations may place reasonable restrictions on both the frequency and the minimum amount of HSA distributions.

An HSA owner may use an HSA distribution in the current year to pay or reimburse expenses incurred in any prior year, as long as the expenses were incurred after the HSA was established, even if the HSA owner is no longer HSA-eligible.

Because HSA owners are not subject to a time limit for taking distributions, HSA owners may choose to take fewer distributions (e.g., annual or semiannual) to pay for medical expenses they incurred throughout the year. By taking fewer distributions, HSA owners may accumulate larger account balances. Some individuals may choose to not take any HSA distributions for several years.

HSA Distributions

In 2019, Penny, age 21, began self-only coverage under an HDHP. That same year, she established and funded an HSA. Penny continues to make annual HSA contributions for the next 15 years without taking any HSA distributions. In 2033, Penny has her first child and changes coverage from an HDHP to a nonHDHP. Over the years, Penny's HSA balance has grown to $50,000.

Although Penny is no longer eligible to make HSA contributions, she still may keep her HSA and take qualified distributions to pay for medical expenses that occurred after she established her HSA in 2019.

Qualified Distributions

HSA distributions for qualified medical expenses are exempt from federal income tax and penalties. HSAs may not receive the same tax treatment at the individual state level as they do at the federal level. HSA owners should talk to their tax advisor to determine the tax implications at the state level.

Qualified distributions are medical expenses that are

- incurred on behalf of the HSA owner, her spouse, or dependents;
- incurred after an HSA has been established;
- not covered by insurance; and
- paid by the HSA owner, spouse, or dependents.

HSA owners may take tax-free distributions to pay for unreimbursed qualified medical expenses incurred by a spouse or dependent, even if the spouse or dependents are not HSA-eligible individuals.

HSA owners are responsible for determining whether an HSA distribution is qualified.

Qualified Medical Expenses

Qualified medical expenses are expenses that generally would qualify for the medical and dental expense tax deduction, including amounts paid for doctors' fees, prescriptions, and certain dental and vision care. IRS Publication 502, *Medical and Dental Expenses*, contains a partial listing of qualified medical expenses. Some examples of qualified medical expenses are listed below.

- Diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function on the body
- Transportation for the essential medical care listed above
- Qualified long-term care services
- Premiums for qualified long-term care insurance (limited to the adjusted amounts under Internal Revenue Code Section (IRC Sec.) 213(d)(10)), COBRA health care continuation coverage, and health care coverage while an individual is receiving unemployment compensation
- For individuals over age 65, premiums for Medicare Part A, B, or D, Medicare HMO, and the employee share of premiums for employer-sponsored health insurance (including premiums for employer-sponsored retiree health insurance)
- Certain amounts paid for lodging while away from home that is essential to medical care
- Nonprescription over-the-counter medications (other than insulin) do not qualify as qualified medical expenses for HSAs unless a physician prescribes them.

Nonqualified Distributions

Distributions that are not used for qualified medical expenses are nonqualified distributions and are always included in the individual's income. Nonqualified distributions are subject to an additional 20 percent IRS penalty tax. The following are exceptions to the penalty tax.

- Death
- Disability
- Age 65

HSA Withdrawal Authorization

Although not an IRS required form, a completed HSA withdrawal authorization may be essential to ensure proper reporting for certain types of distributions. For example, a financial organization should use a withdrawal authorization to document distributions of excess contributions and distributions following death or disability.

If a financial organization does not use an HSA withdrawal authorization, other methods of tracking distributions and obtaining the HSA owner's authorization are recommended.

HSA WITHDRAWAL AUTHORIZATION

Refer to page 2 for reporting information.

PART 1. HSA OWNER

Name *(First/MI/Last)* ______________________

Social Security Number ______________________

Date of Birth ____________ Phone ____________

Email Address ______________________

Account Number ____________________ Suffix _____

PART 2. HSA TRUSTEE OR CUSTODIAN

To be completed by the HSA trustee or custodian

Name ______________________

Address Line 1 ______________________

Address Line 2 ______________________

City/State/ZIP ______________________

Phone ______________ Organization Number __________

PART 3. BENEFICIARY OR FORMER SPOUSE INFORMATION

This section should only be completed by a beneficiary taking a death withdrawal or a former spouse taking a withdrawal as a result of a court-approved property settlement due to divorce or legal separation.

Name *(First/MI/Last)* ______________________

Address Line 1 ______________________

Address Line 2 ______________________

City/State/ZIP ______________________

Tax ID *(SSN/TIN)* ______________________

Date of Birth ______________ Phone ____________

BENEFICIARY TYPE *(Select one, if applicable)*

☐ Spouse ☐ Estate ☐ Other

PART 4. WITHDRAWAL INFORMATION

Total Withdrawal Amount ______________________

Withdrawal Date ______________________

☐ This Withdrawal Will Close This HSA

WITHDRAWAL REASON *(Select one)*

☐ 1. Transfer to Another HSA

☐ 2. Normal Withdrawal

☐ 3. Disability

☐ 4. Prohibited Transaction

☐ 5. Excess Contribution Removed Before the Excess Removal Deadline
Net Income Attributable to Excess ______________

☐ 6. Excess Contribution Removed After the Excess Removal Deadline

☐ 7. Death Withdrawal by a Beneficiary Taken in the Year of Death

☐ 8. Death Withdrawal by a Beneficiary Taken After the Year of Death

PART 5. WITHDRAWAL INSTRUCTIONS

ASSET HANDLING *(Assets identified below will be liquidated immediately unless otherwise specified in the Special Instructions section.)*

Asset Description	Amount to be Withdrawn	Special Instructions
______________	______________	______________
______________	______________	______________
______________	______________	______________

PAYMENT METHOD

☐ **Cash**

☐ **Check** *(If the withdrawal reason is a transfer to another HSA, the check must be made payable to the receiving organization.)*
Make payable to ______________________

☐ **Internal Account**
Account Number ______________ Type *(e.g., checking, savings, HSA)* ______________

☐ **External Account** *(e.g., EFT, ACH, wire) (Additional documentation may be required and fees may apply.)*
Name of Organization Receiving the Assets ______________ Routing Number *(Optional)* __________
Account Number ______________ Type *(e.g., checking, savings, HSA)* ______________

PART 6. SIGNATURES

I certify that I am authorized to receive payments from this HSA and that all information provided by me is true and accurate. No tax advice has been given to me by the trustee or custodian. All decisions regarding this withdrawal are my own, and I expressly assume responsibility for any consequences that may arise from this withdrawal. I agree that the trustee or custodian is not responsible for any consequences that may arise from processing this withdrawal authorization.

X ______________________ ______________
Signature of Recipient Date *(mm/dd/yyyy)*

X ______________________ ______________
Notary Public/Signature Guarantee *(If required by the trustee or custodian)* Date *(mm/dd/yyyy)*

X ______________________ ______________
Authorized Signature of Trustee or Custodian Date *(mm/dd/yyyy)*

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Electronic Distributions

Debit cards, credit cards, and checks are acceptable means of distributing HSA assets from the account. Distributions through debit or credit cards and checks should be tracked and reported as normal distributions.

Prohibited Transactions

HSAs are subject to the prohibited transaction rules under IRC Sec. 4975. Financial organizations that allow an HSA owner to use debit or credit cards or checks to withdraw HSA assets may risk creating a prohibited transaction by extending credit to the HSA owner.

According to IRS guidance, if an individual engages in a prohibited transaction it disqualifies the account; the HSA is no longer an HSA as of January 1 of the year of the prohibited transaction. The assets are deemed distributed and taxes and penalty taxes apply, including the 20 percent additional tax for distributions that were not used for qualified medical expenses.

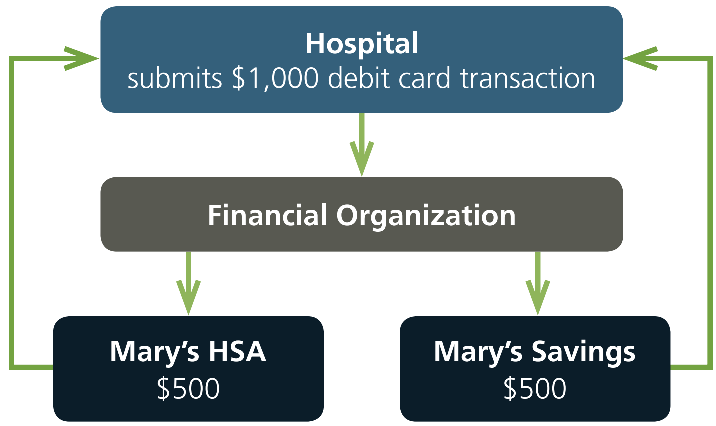
Preventing an Extension of Credit

To prevent an overdraft in the HSA, some financial organizations automatically cover transactions that exceed a client's balance. The financial organization then may require the client to repay the overdrawn amount. If this results in a loan or credit obligation in the HSA itself, both the Department of Labor (DOL) and the Treasury Department may view it as a prohibited transaction under IRC Sec. 4975.

Until the IRS releases direct guidance, financial organizations should have their own policies in place that prevent this type of situation from occurring. With each of the following three possible solutions, the HSA owner must have an agreement in place with the financial organization to authorize the transaction.

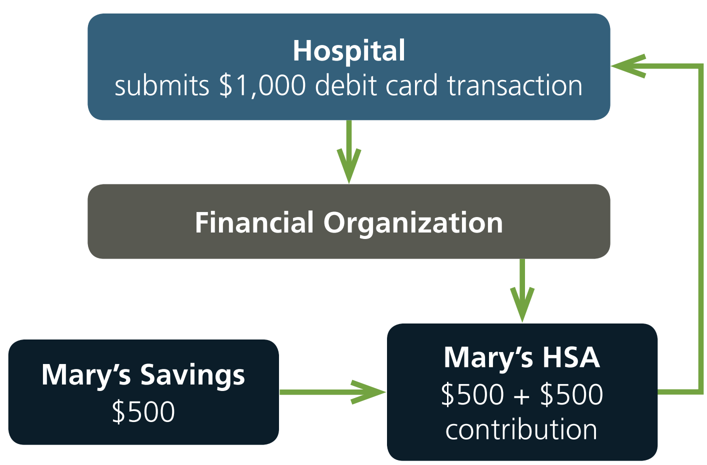
1. Automatically draw assets from another account once an HSA balance drops to zero.

The financial organization receives an HSA debit transaction for Mary in the amount of $1,000. Mary does not have the requested amount in her HSA. The financial organization distributes $500 from her HSA and makes up the difference from her savings account.



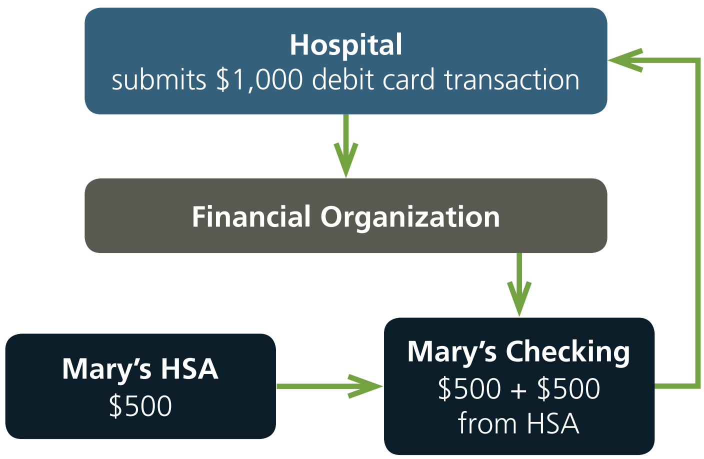
2. Automatically move assets from another of the HSA owner's accounts directly into the HSA as a reportable contribution. HSA owners should understand that this type of arrangement could create an excess contribution.

The financial organization receives a debit transaction for Mary in the amount of $1,000. Mary does not have the requested amount in her HSA. The financial organization transfers the $500 from her savings account to her HSA as a regular HSA contribution and then pays the debit card transaction.



3. Pay medical expenses with a nonHSA checking account that is tied to an HSA and is set up to be used exclusively for medical expenses. When a distribution is taken from the nonHSA checking account, the financial organization moves that same dollar amount (or as much as available in the HSA if less) from the HSA into the nonHSA checking account.

The financial organization receives a debit transaction for Mary in the amount of $1,000. Mary does not have the requested amount in her HSA. The financial organization distributes $1,000 from her checking account to pay the debit card transaction. The financial organization then makes a $500 distribution from the HSA and places those assets in Mary's checking account.



Authorized Signer Agreement and Power of Attorney

As previously mentioned, an HSA is an individual account. As a result, only the HSA owner may authorize HSA transactions. Often the HSA owner is not the individual who needs access to the HSA assets. Although HSA owners may take qualified distributions for medical expenses incurred by a spouse or child, it may be more convenient for the HSA owner's spouse to take an HSA distribution.

Access for Individuals Other Than the HSA Owner

Spencer and Hannah are married and are covered under Spencer's family HDHP. Spencer has an HSA to which contributions have been made. Hannah needs to access the account because she is the one who takes the children to the doctor and pays for prescriptions.

Authorized Signer Agreement

Financial organizations may allow an individual who is not the HSA owner to complete an HSA transaction if that individual signs an authorized signer agreement. Individuals with an authorized signer agreement may complete routine HSA transactions, such as depositing contributions and taking distributions—including those accessed through debit and credit cards, or checks.

Power of Attorney

Some financial organizations may take a more conservative approach by requiring HSA owners to sign a power of attorney (POA) document, which gives another individual authorization to complete HSA transactions.

When presented with a POA document, financial organizations must verify that the POA is valid under state law. Before acting upon the direction of an individual with a POA, a financial organization may wish to take the following steps.

1. Obtain a copy of the POA document
2. Present the POA document to the financial organization's attorney, or ask the attorney to draft a set of guidelines to follow when dealing with POAs.

HSA Fees

Many forms vendors have included customized language in their HSA plan agreements to address fees associated with HSA administration. Financial organizations should be familiar with how HSA fees are categorized and how the expenses are paid. Financial organizations generally charge two types of HSA fees.

Administrative Fees

Administrative fees generally are regarded as ordinary and necessary for the maintenance of the HSA. Examples of administrative fees include annual fees, investment advisor fees, transfer fees, and various other transaction fees.

HSA owners may pay administrative fees out-of-pocket or they may have the fees taken directly from their HSAs. The IRS does not view administrative fees that are taken directly from the HSA as reportable distributions. A reportable contribution will occur if the HSA owner reimburses the HSA for any administrative fees that are taken directly from the HSA.

Sales Charges and Commissions

Sales charges and commissions are expenses that relate to the purchase, sale, or maintenance of investments for the HSA. Sales charges and commissions are paid directly from the HSA and should be viewed as part of the cost of the investment. The IRS does not view the payment of such fees as reportable distributions. Financial organizations should not report these payments as distributions on Form 1099-SA. If an HSA owner erroneously pays a sales charge or commission fee out-of-pocket or reimburses the HSA, the financial organization must report the payment as a contribution on Form 5498-SA.

HSA assets may be liquidated to cover sales charges and commission fees. The plan agreement typically will address the financial organization's right to liquidate plan assets.

Group discussion

Where can you find information about charging fees?

Nonqualified Distributions of Ineligible HSA Contributions

When there is a testing period failure, the ineligible contribution amount is not required to be distributed from the HSA (Notice 2008-52). In fact, further adverse tax consequences may apply if the HSA owner does remove the ineligible contribution. In addition to the tax and penalty tax incurred if the HSA owner violates the testing period requirement, the HSA owner will be taxed and penalized if taking a nonqualified distribution of these assets.

An HSA distribution that is not used for qualified medical expenses generally is included in gross income and is subject to an additional 20 percent penalty tax. Notice 2008-52 clarifies that these consequences still apply even if that amount is already taxed and subject to the additional 10 percent penalty tax because the HSA owner did not remain HSA-eligible during the testing period. As a result, the HSA owner may be taxed and penalized twice on the same assets: once for making a full year contribution and not remaining HSA-eligible throughout the testing period (10 percent penalty tax), and once for withdrawing a nonqualified distribution (20 percent penalty tax).

Nonqualified Distributions of Ineligible HSA Contributions

Morgan, age 33, enrolled in self-only HDHP coverage on June 1, 2018, and contributed the 2018 statutory limit of $3,450 to her HSA because it is greater than $2,012.50, the sum of her monthly contribution limits ($3,450/12 x 7). Morgan is HSA-eligible as of December 1, 2018, but ceases to be HSA eligible as of July 1, 2019. Because Morgan fails to remain HSA-eligible through the 2018 testing period (December 1, 2018, through December 31, 2019), she must include $1,437.50 ($3,450 – $2,012.50) in her 2019 gross income and pay the additional 10% penalty tax ($143.75).

On July 2, 2019, Morgan withdraws the ineligible contribution ($1,437.50) from her HSA and does not use it to pay for qualified medical expenses. She cannot treat the $1,437.50 as an excess contribution. Instead, because Morgan took a nonqualified distribution, she again must include the $1,437.50 in her 2019 gross income and also pay an additional 20% penalty tax ($287.50) on the $1,437.50 amount.

Mistaken Distributions

If an HSA owner has reason to believe that a distribution is a qualified distribution and then realizes that it is not a qualified distribution, the HSA owner may redeposit the mistaken distribution into the HSA.

The IRS provides an example of a mistaken distribution in Notice 2004-50. In the example, the HSA owner reasonably, but mistakenly, believed that an expense was a qualified medical expense and withdrew HSA assets to pay for the medical expense. Based on the facts of this scenario, the HSA owner may repay the mistaken distribution no later than April 15 following the first year the HSA owner knew, or should have known, that the distribution was a mistake.

Financial organizations are not required to accept returned mistaken distributions. If the financial organization allows for the return of mistaken distributions, the financial organization may rely on the HSA owner's representation that the distribution was a mistake.

According to the 2019 *Instructions for Forms 1099-SA and 5498-SA*, financial organizations should not report the mistaken distribution on IRS Form 1099-SA. If the financial organization reports a mistaken distribution on Form 1099-SA, the financial organization should file a corrected Form 1099-SA, *Distributions From an HSA, Archer MSA, or Medicare Advantage MSA*, with the IRS and the HSA owner as soon as the error is discovered. Financial organizations also should not report repayments of a mistaken distribution on IRS Form 5498-SA.

Mistaken Distributions

Ryan, age 51, used his HSA debit card June 15, 2019, at his doctor's office to pay $50 for a medical expense that he believed wouldn't be covered. On July 14, 2019, he received notice from his insurance company that the expense would be covered and he does not have any other outstanding medical expenses for the year.

If the financial organization accepts returned mistaken distributions, Ryan may repay the mistaken distribution no later than April 15, 2020. The financial organization should not report the distribution or the repayment of the mistaken distribution.

Excess HSA Contributions

Excess HSA contributions are contributions that exceed the annual statutory limit, as well as contributions made by an ineligible individual. HSA owners may remove only true excess contributions under the excess rules; individuals may not treat unwanted HSA contributions as excess contributions.

HSA owners cannot deduct excess contributions on their tax returns. If an employer makes an excess contribution to an employee's HSA, the employer must treat the amount that exceeds the contribution limit as taxable wages on the employee's Form W-2, *Wage and Tax Statement*.

If an HSA owner removes an excess contribution by the tax return deadline, plus extensions, he must

- remove the amount of the excess from the HSA,
- remove the net income attributable (NIA) to the excess amount, and
- include the NIA as taxable income in the year of the distribution.

If the excess is not timely removed, the HSA owner will owe a six percent IRS penalty tax on the amount of the excess for the year the excess was created and for each following year if the excess is not removed by December 31.

NOTE: *NIA is the amount of income earned by a contribution. The calculation of NIA is beyond the scope of this seminar.*

Excess Contribution Correction When Balance Is Less Than Excess Amount

If the HSA owner has withdrawn assets and the balance of the HSA is less than the amount of the excess, the HSA owner has a few possible solutions. The IRS has no formal guidance on how to handle the issue, so it is up to the HSA owner to determine which solution is best.

Report Previous Distributions as an Excess Distribution

The financial organization could correct the reporting to show a portion of the prior distribution as a removal of excess rather than as a regular distribution. There is no official written guidance stating that financial organizations must amend their reporting to show such distribution as an excess. Ascensus does not recommend using this method, but recognizes that it is used throughout the industry.

Attach Explanation to Tax Return

Financial organizations can rely on the HSA owner to handle the excess contribution on his income tax return. The HSA owner should work with a competent tax advisor to pay the appropriate taxes and attach a letter of explanation to her tax return. The letter may inform the IRS that there was an excess contribution and not enough HSA assets at the time it was discovered to distribute it as an excess. In addition, note that Form 1099-SA will not reflect a removal of excess contributions.

Make and Remove a Contribution

The HSA owner may make additional HSA contributions in the following year, if eligible, and follow with a distribution of the prior-year excess. If removed by the HSA owner's tax return due date, plus extensions, the HSA owner will not have to pay the additional six percent excess contribution penalty tax, and the IRS will receive Form 1099-SA from the financial organization properly showing a removal of excess contributions.

Employers May Recoup Contributions

As mentioned previously, an HSA owner's interest is nonforfeitable. But there are instances when an employer may recoup contributions. IRS Notice 2008-59, Q&A 23 and 24, provides two specific circumstances.

1. If an employer contributes to the HSA of an employee who was never eligible to receive an HSA contribution, the employer may ask the financial organization to return the contributed amount plus any earnings.
2. If an employer erroneously contributes more than the statutory limit to an employee's HSA, the employer may ask the financial organization to return the excess amount to the employer.

In February 2019, the IRS released Information Letter 2018-0033 providing additional guidance for when an employer may be able to recoup contributions. The information letter states that if there is clear documentation demonstrating that there was an administrative or processing error, an employer may request that the financial organization return the incorrect amounts to the employer. Any correction should put all parties in the same position they would have been in had the error not occurred. The letter also states that employers should maintain documentation to support their assertion that a mistaken contribution occurred. The letter includes examples of administrative or processing errors that may be recouped.

The employer has until the end of the tax year in which the employer made the contribution to recover the ineligible or excess amount. The 2019 *Instructions for Forms 1099-SA and 5498-SA* indicate that financial organizations must suppress the reporting of the contribution and subsequent distribution. If the employer fails to recover the amount by the end of the tax year, the employer must include the amount on the employee's Form W-2 for the year in which the employer made the contribution.

If the excess is not timely removed, the HSA owner will owe a six percent IRS penalty tax on the amount of the excess for the year the excess was created and for each following year if the excess is not removed by December 31.

Employer Recouping Contributions

Sunrise Company makes a $500 HSA contribution for each employee enrolled in the employer's HDHP on June 15 and again on December 15 for a total contribution of $1,000.

When verifying the June contributions, Sunrise Company realized that it contributed $500 on behalf of Kevin Jones who is not enrolled in the employer HDHP. Upon further examination, it determined that Kevin is covered under his spouse's nonHDHP and has never been covered under an HDHP. Sunrise is now contacting your financial organization to have the $500 contribution returned to Sunrise Company.

Can the financial organization return the contribution? Why?

Would it be different if Kevin was covered under his spouse's HDHP?

Death of an HSA Owner

The tax treatment of an HSA after the HSA owner's death depends on whether a spouse or nonspouse is designated as the death beneficiary of the account.

Spouse Beneficiary	If the beneficiary is a spouse, the HSA is treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses are exempt from federal income tax and penalties.
Nonspouse Beneficiary	If a nonspouse is the beneficiary, the HSA ceases to be an HSA as of the date of death. The nonspouse death beneficiary must include the HSA's fair market value (FMV) in his income for the year of death. **NOTE:** *The amount that a death beneficiary must include in income is reduced by any payments made by the HSA for the decedent's qualified medical expenses, if paid within one year after death.*
Estate Beneficiary	If the HSA owner's estate is the beneficiary, the HSA ceases to be an HSA as of the date of death. The estate must include the HSA's FMV as income on the HSA owner's final tax return.

Beneficiary Distributions

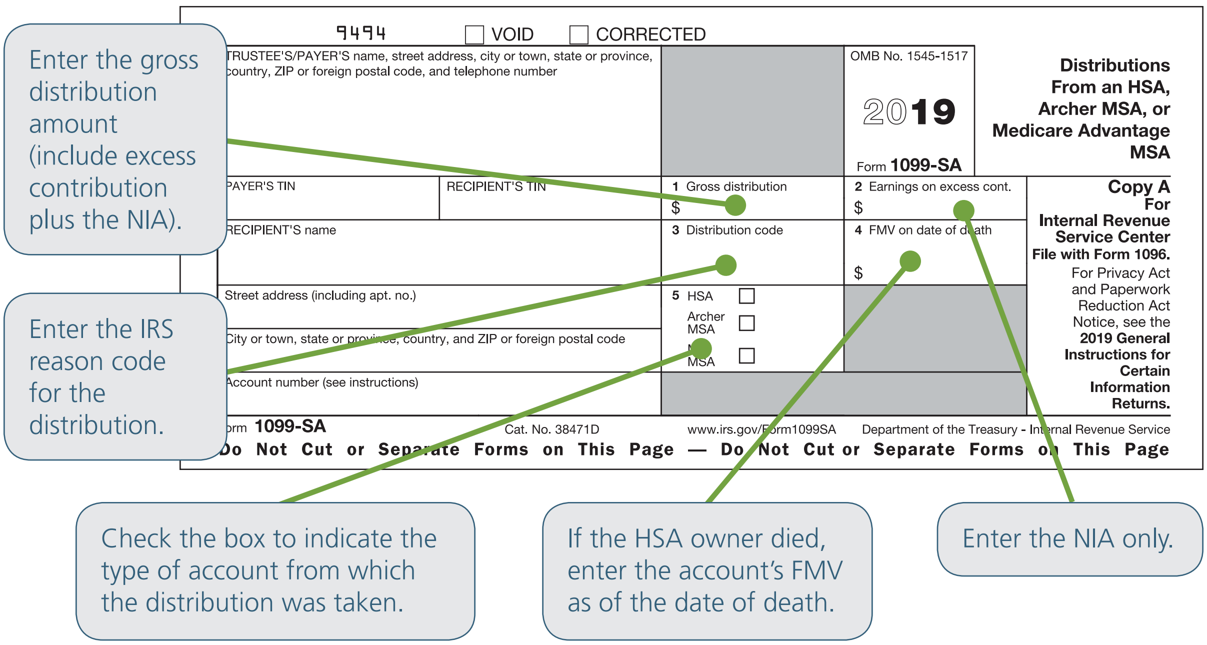
Donald died on October 1, 2019. The beneficiaries of his HSA are his wife, Abigail, and his son, Curt, who are each receiving 50 percent.

Because Abigail is a spouse beneficiary, her portion of the HSA becomes hers. If she removes money from her HSA it would be reported in her name and Social Security number.

Because Curt is a nonspouse beneficiary, his portion of the HSA ceases to be an HSA, and it is considered a full distribution to him. The distribution will be reported in Curt's name and Social Security number.

Reporting HSA Distributions

Financial organizations must send IRS Form 1099-SA to the recipient by January 31 and to the IRS by February 28 (March 31 if filing electronically) of the following year. Financial organizations must include the following information on Form 1099-SA for HSA contributions. A list of distribution codes can be found on Job Aids page 8.



NOTE: *Administrative fees, sales charges, and commissions are not reportable and should not be included in Box 1.*

Every year that a distribution is taken from an HSA, the HSA owner must complete Form 8889, *Health Savings Accounts (HSAs)*, and submit it to the IRS with the HSA owner's tax return.

IRS Distribution Codes

Distribution Codes	Definitions
Code 1	Use this code for normal distributions to the HSA owner and any direct payments to a medical service provider. Use this code if no other code applies.
Code 2	Use this code for distributions of excess HSA contributions removed before the HSA owner's tax return due date, plus extensions.
Code 3	Use this code if the distribution was made after the HSA owner was disabled.
Code 4	Use this code for distributions to an estate beneficiary in any year and distributions to a nonspouse beneficiary in the year of the HSA owner's death.
Code 6	Use this code for distributions to a nonspouse beneficiary in a year after the year of the HSA owner's death.

Exercise: HSA Distributions

Answer the following questions.

1. Jason opened his HSA on April 12, 2019, with a contribution of $2,000 for 2018. His total unreimbursed medical expenses for 2019 are $150 from his doctor visit on January 10, 2019. If he withdraws the amount from his HSA, does he have a qualified distribution or a nonqualified distribution? Why?

   Qualified Distribution **Nonqualified Distribution**

2. Which IRS Publication contains a partial listing of qualified medical expenses?

HSA Portability

Learning Objectives

After completing this section, you will be able to

- differentiate between a transfer and a rollover, and
- ensure accurate rollover reporting.

HSA Portability Rules

Transfers

Individuals may transfer assets into an HSA from an Archer MSA or from another HSA. A transfer may occur between two different financial organizations or between accounts at the same financial organization without any time limitations. Transfers are not reported to the HSA owner or to the IRS.

A former spouse also may transfer MSA or HSA assets to his own HSA if those assets were awarded through a divorce settlement.

Although an HSA transfer request form is not a required form, financial organizations may find this form helpful in documenting the transaction, as well as in ensuring that the transaction is handled properly.

Rollovers

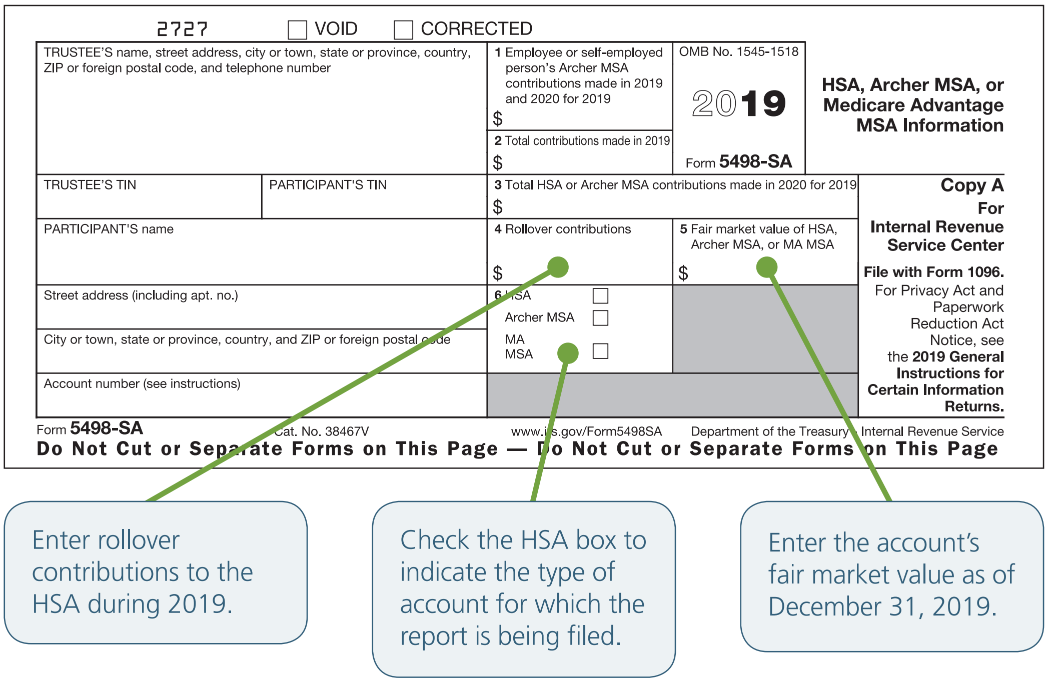
Individuals may roll over assets into an HSA from Archer MSAs and other HSAs. A rollover may occur between two different financial organizations or between accounts at the same financial organization with time limitations. Rollovers are reported to the HSA owner and to the IRS.

- **60-day rule** – HSA owners generally have 60 days following the day they physically receive (constructive receipt) the MSA or HSA assets to deposit the assets to an HSA. An HSA rollover contribution made by mail is deemed timely if the envelope is postmarked by the 60th day.
- **One-per-12-month rule** – An HSA owner may roll over only one rollover contribution per 12 months. That is, one year must pass from the date of the rollover contribution to the HSA before an HSA owner is eligible to roll over another contribution.

HSA owners must irrevocably designate in writing at the time of the rollover deposit that the financial organization must treat the contribution as a rollover. Financial organizations may find a form such as Ascensus' *HSA Contribution and Investment Selection* helpful in documenting the transaction, as well as in ensuring that the transaction is handled properly.

Reporting Rollover Contributions

Financial organizations generally must send IRS Form 5498-SA to the IRS by May 31 for each individual who maintained an HSA in the previous year and to the HSA owner by that same date. Financial organizations must include the following information on Form 5498-SA for HSA rollover contributions.



Exercise: HSA Portability

Answer the following questions.

1. Individuals may transfer or roll over assets from which account types into an HSA?

2. If Sally requested Sunset Financial to issue a check from her HSA payable to Vista Financial for benefit of Sally Larson's HSA, by when must the assets be deposited to her HSA at Vista Financial? Why?

HSA Compliance

Learning Objectives

After completing this section, you will be able to

- identify the financial organization's responsibilities in administering HSAs, and
- recognize the information sources used for HSA guidance.

Financial Organization Responsibilities

Financial organizations have certain responsibilities regarding the administration of HSAs that help ensure compliance with HSA rules and regulations. The following is a brief list of the various financial organization responsibilities.

HSA Establishment

- Provide the HSA owner with a current plan agreement. Disclosure statements are not required for HSAs, but many financial organizations provide them as a courtesy to help keep HSA owners informed of the rules. Additional disclosures, such as "truth-in-savings," may be required. Financial organizations are responsible for providing such disclosures.
- Retain signed copy of the plan agreement and disclosure statement, if applicable, or written statement acknowledging receipt.
- Obtain HSA owner information.
- Satisfy Customer Identification Program (CIP) requirements.

Amending

- Obtain an appropriately updated plan agreement and disclosure statement, as necessary, for amending purposes.
- Provide amendments to HSA owners.
- Place a copy of each amendment in the HSA owner's file, or place a copy in a master file with a copy of the amendment and cover letter and list of HSA owners who received the amendment.

Contributions

- Accept deposits and verify the type of contribution and contribution tax year.
- Document receipt of the contribution and required elections using the appropriate form.
- Do not accept annual contributions that exceed the current maximum contribution amount in effect for the year ($7,000 for 2019 and $7,100 for 2020), plus the current catch-up contribution amount ($1,000 for 2019 and for 2020) if the HSA owner is age 55 or older by the end of the calendar year.
- Track the HSA owner's age for purposes of accepting catch-up contributions. Financial organizations may rely on the HSA owner's representation as to his date of birth.

Distributions

- Have the HSA owner or beneficiary authorize the distribution by means of acceptable written request.
- Determine the distribution code for reporting purposes.
- When the HSA owner dies, distribute the balance of the HSA to any nonspouse designated beneficiaries. (If a spouse inherits an HSA, the spouse becomes the HSA owner.) If there is no beneficiary designated, distribute the HSA balance to the HSA owner's estate, unless the plan agreement states otherwise.

Reporting

- Submit Form 1099-SA to the IRS by the required deadline.
- Provide Form 1099-SA by January 31 to HSA owners who took HSA distributions.
- File Form 5498-SA with the IRS by the required deadline.
- Send Form 5498-SA by May 31 to each HSA owner who contributed for the previous tax year.
- Submit corrected forms to the IRS and HSA owner as needed.

Financial Organization Penalties

When financial organizations do not maintain compliant HSA programs, they may be subject to significant penalties. There are two general areas in which financial organizations may be fined for noncompliance: opening documents and HSA reporting.

Requirement	Penalty	Code Section
Failure to provide HSA owner a copy of plan agreement	$50 for each failure	*IRC Sec. 6693(a)*
Failure to provide HSA owner a copy of an amendment to the plan agreement when such an amendment is required	$50 for each failure	*IRC Sec. 6693(a)*
Failure to timely file Form 1099-SA with the IRS	$50 for each failure, no maximum	*IRC Sec. 6693(a); 223(h)(1)*
Failure to provide Form 1099-SA to HSA owner or beneficiary	$50 for each failure, no maximum	*IRC Sec. 6693(a); 223(h)(1)*
Failure to timely file Form 5498-SA with the IRS	$50 for each failure, no maximum	*IRC Sec. 6693(a); 223(h)(1)*
Failure to provide an account statement (generally copy B of Form 5498-SA) to HSA owner	$50 for each failure, no maximum	*IRC Sec. 6693(a); 223(h)(1)*

HSA Owner's Responsibilities

HSA owners are responsible for making most of the decisions about their HSAs.

- Eligibility and contribution decisions
  - The HSA owner must determine if he is eligible based his type of insurance coverage.
  - The HSA owner must determine contribution amounts based on the type of HDHP coverage and the months eligible for contributing.
- Investment and distribution decisions
  - The HSA owner chooses the investments for the HSA assets from the HSA investments your financial organization offers.
  - The HSA owner also decides when assets will be removed from the HSA, subject to certain tax rules, and who will receive the HSA assets after the HSA owner's death.
- Tax decisions
  - In addition to making investment and distribution decisions, the HSA owner must
    - determine that each regular contribution, rollover contribution, or transfer is permitted by the tax laws;
    - determine the amount of an available tax deduction;
    - discover excess contributions and choose how to handle them;
    - report transactions properly on her tax return; and
    - document qualified versus nonqualified distributions using IRS Form 8889.

HSA Governmental Resources

Because current laws and regulations are complex, financial organizations must be familiar with resources that support them. Unfortunately, there is no single source for HSA rules and regulations. The sources used for HSA guidance are listed below.

- IRC Sec. 223
- IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*
- IRS Publication 502, *Medical and Dental Expenses*
- IRS Notice 2004-2 (This notice provides certain basic information about HSAs in question and answer format.)
- IRS Notice 2004-50 (This notice provides guidance on HSAs.)
- IRS Notice 2008-52 (This notice provides guidance on HSA contributions under amendments to the Internal Revenue Code included in the Tax Relief and Health Care Act of 2006.)
- IRS Notice 2008-59 (This notice addresses additional HSA questions not answered in Notices 2004-2 and 2004-50.)
- IRS Form 5305-B, *Health Savings Trust Account*
- IRS Form 5305-C, *Health Savings Custodial Account*
- IRS Form 1099-SA, *Distributions from an HSA, Archer MSA, or Medicare Advantage MSA*, and instructions
- IRS Form 5498-SA, *HSA, Archer MSA, or Medicare Advantage MSA Information*, and instructions

Exercise: HSA Compliance

Determine if each action is the responsibility of the financial organization or the HSA owner.

Action	Financial Organization	HSA Owner
Provide a current plan agreement		
Submit Form 1099-SA to the IRS		
Submit Form 8889 to the IRS		
Determine eligible contribution amount		
Verify contribution type and tax year		
Report contributions to the IRS		
Choose how to invest the HSA assets		
Determine taxable amount on any distribution		

HDHP Appendix

Family Coverage Plan with Individual Deductibles

A family coverage plan with individual deductibles may be an HDHP, but it must satisfy both the annual deductible and out-of-pocket expense requirement.

In cases where family coverage contains embedded individual deductibles, the plan is considered an HDHP if no amounts are payable from the health plan until the family incurs covered medical expenses in excess of the minimum annual family deductible, which is $2,700 for 2019. In addition, an HDHP with cumulative individual deductibles under a family coverage plan must limit the out-of-pocket expenses paid by the covered individual, either by design or with an express limit.

Family Coverage with Individual Deductibles

For 2019, Larry Nelson provides family coverage for himself, his wife, and his two children. The plan has a $2,700 deductible for each family member and no express limit for out-of-pocket expenses. The plan pays 100% of the covered benefits for a family member once that member satisfies the $2,700 deductible. The health plan is an HDHP for Larry's family because the plan does not pay benefits until a family member incurs the minimum family deductible amount for an HSA-eligible HDHP, and the out-of-pocket expenses ($2,700 x 4 = $10,800) do not exceed the maximum out-of-pocket expense amount ($13,500 for 2019).

When Larry and his wife have twins, Larry must add two more children to his health plan. This plan is no longer an HDHP for his family because Larry's potential out-of-pocket expense ($2,700 x 6 = $16,200) exceeds the maximum out-of-pocket expense amount ($13,500 for 2019).

Family Coverage with Individual Deductibles

For 2019, Hilary Hanson provides coverage for herself and her family. The plan has a $2,700 deductible for each family member. The plan pays 100% of the covered benefits for a family member once that member satisfies the $2,700 deductible. The plan also has a $10,000 umbrella deductible. Once the family members' expenses together satisfy the $10,000 deductible, the plan pays 100% of covered benefits. Because the plan does not pay benefits until the $2,700 deductible is met and the plan has an express out-of-pocket expense limit with the $10,000 umbrella deductible, this plan is considered an HDHP, regardless of the number of Hilary's family members covered under the health plan.

Exercise: Which plan is considered an HDHP?

Scenario one

In 2019, Steve Johnson provides coverage for himself and his family. The plan has a $5,000 family deductible with a $1,100 individual deductible and a $10,000 out-of-pocket expense limit.

Scenario two

In 2019, Steve Johnson provides coverage for himself and his family. The plan has a $5,000 family deductible with a $2,700 individual deductible and a $10,000 out-of-pocket expense limit.

Expenses Included In the Out-Of-Pocket Expense Limit

Amounts Included in Limit	Amounts Not Included in Limit*
• Deductibles • Copayments (must be counted in out-of-pocket expenses even if the copayments are not taken into account when determining if the deductible is satisfied) • Other amounts	• Premiums • Noncovered services • Financial penalties or additional coinsurance for failing to obtain precertification • Amounts paid by the individual in excess of the usual, customary, and reasonable (UCR) amount, a reasonable lifetime limit, or other reasonable restrictions on other benefits

* When determining if a plan is an HDHP, the out-of-pocket expense limit for services provided outside of the network is disregarded.

Coinsurance

Coinsurance refers to money that an individual is required to pay for services, after a deductible has been paid. In some health care plans, coinsurance is called "copayment." Coinsurance is often specified by a percentage. For example, the employee pays 20 percent toward the charges for a service and the employer or insurance company pays 80 percent.

UCR Amount

A UCR amount is an amount customarily charged for or covered for similar services and supplies that are medically necessary, recommended by a doctor, or required for treatment.

Exercise: Is the plan described below an HDHP? *Yes* *No*

Sarah has self-only coverage under her health plan for 2019. She may access services from a network of preferred providers, or she may choose to receive services from out-of-network providers. When she uses in-network providers, her health plan has a $1,350 deductible and a $4,000 out-of-pocket expense limit. Alternatively, when she accesses services from out-of-network providers, her deductible is $2,000, and her out-of-pocket expense limit is $12,000.

Plans Without an Express Limit On Out-Of-Pocket Expenses

A health plan without an express limit on out-of-pocket expenses generally is not an HDHP, unless such limit is not necessary to prevent the out-of-pocket expense limit from being exceeded.

EXAMPLE 1: Is the following plan an HDHP?

- Self-only coverage plan (2019)
- $2,200 deductible
- 100% of covered benefits paid above the deductible
- No express limit on out-of-pocket expenses

Answer: This plan is an HDHP because the out-of-pocket expenses paid by the covered individual will never exceed the deductible.

EXAMPLE 2: Is the following plan an HDHP?

- Self-only coverage plan (2019)
- $2,700 deductible
- $1 million lifetime limit for covered benefits
- 80% of the UCR amount for covered benefits incurred above the deductible ($2,700) is paid
- No express limit on out-of-pocket expenses

Answer: This plan does not qualify as an HDHP because it does not have a limit on out-of-pocket expenses. The covered individual could pay up to $202,160 [($997,300 x 20%) + $2,700].

EXAMPLE 3: Is the following plan an HDHP?

- Self-only coverage plan (2019)
- $2,200 deductible
- $1 million lifetime limit for covered benefits
- 80% of the UCR amount for covered benefits incurred above the deductible ($2,200) is paid
- Once the 20% coinsurance reaches $3,000, the plan pays 100% of the UCR amount until the $1 million is reached.

Answer: This plan is an HDHP because it satisfies the out-of-pocket expense limit ($2,200 + $3,000 = $5,200).

An HDHP with cumulative embedded deductibles under a family coverage plan must limit the out-of-pocket expenses paid by the individuals, either by design or with an express limit.

EXAMPLE 4: Is the following plan an HDHP?

- Plan otherwise qualifies as an HDHP for 2019
- Family coverage with a $2,700 deductible for each family member
- Plan pays 100% of covered benefits for each family member after that member satisfies the $2,700 deductible

Answer: Because the 2019 maximum out-of-pocket expense amount is $13,500, this plan is an HDHP for a family with two, three, four, or five covered family members. This plan is not an HDHP for a family with six or more covered individuals.

EXAMPLE 5: Is the following plan an HDHP?

- Plan otherwise qualifies as an HDHP for 2019
- Family coverage with a $2,700 deductible for each family member
- Plan pays 100% of covered benefits for each family member after that member satisfies the $2,700 deductible
- Plan has $10,000 umbrella deductible
- Plan reimburses 100% of covered benefits once umbrella deductible is satisfied

Answer: This plan is an HDHP regardless of the number of family members.

Employer Contribution Issues Appendix

Employer Contribution Issues

Employers who make HSA contributions on behalf of employees are responsible for monitoring contributions, satisfying comparability rules, determining whether employer contributions will be forwarded to one or more financial organizations, and reporting employer contributions to their employees and the IRS.

Employers Monitoring Contributions

With respect to an employee's HSA eligibility and annual contribution limit, employers are responsible for determining whether the employee is

- covered under a high deductible health plan (HDHP) sponsored by the employer,
- covered under low deductible health plans (including flexible spending arrangements and health reimbursement arrangements) sponsored by the employer, and
- eligible for catch-up contributions.

Comparability Rule

If an employer chooses to make HSA contributions for one employee, the employer generally must make comparable contributions on behalf of all participating employees with similar coverage during the same calendar year. Contributions are considered comparable if they are the same amount or the same percentage of each employee's deductible under the HDHP. The comparability rule is applied separately to part-time employees (i.e., employees who typically work less than 30 hours per week).

Comparability Rule

Shady Oaks Spa offers two health plans, one of which is an HDHP. For each employee electing the HDHP, the employer contributes $1,000 per year to an HSA on behalf of the employee. For employees who do not elect the HDHP, the employer makes no HSA contributions. Shady Oaks Spa's plans and HSA contributions satisfy the comparability rule.

To satisfy the comparability rule for employees who work full-time for the entire calendar year and for employees who work full-time for a portion of the year, the employer should prorate the contribution amount based on months of full-time service.

If an employer chooses to make HSA contributions, the employer is only required to make comparable contributions to the HSAs of employees who are covered under the employer's HDHP. But if an employer contributes to the HSA of an employee who is not covered under the employer's HDHP, the employer must make comparable contributions to all participating employees, regardless of where they obtain their HDHPs.

Employers may make catch-up contributions only if all HSA-eligible employees are eligible to receive catch-up contributions.

An employer who does not comply with the comparability rules for a calendar year is subject to a 35 percent penalty tax for the aggregate amount contributed by the employer for that period.

Limiting HSA Providers

An employer may forward contributions through its payroll system to a single financial organization or to a limited number of financial organizations as long as neither the employer nor the financial organization restricts the employee's ability to move the assets to an HSA at another financial organization.

After-Tax Amounts

If an employer deducts after-tax amounts from the employee's compensation and deposits these amounts as employee contributions to the employee's HSA, the comparability rule does not apply.

Contributions Under a Cafeteria Plan

An employee may elect to have amounts contributed as employer contributions to an HSA on a salary-reduction basis through a cafeteria plan. In fact, an employer could include both an HSA and an HDHP as options under its cafeteria plan, thus allowing an employee to pay HDHP premiums and contribute to an HSA through salary reduction.

Employees with HSAs under a cafeteria plan may change their contribution election at any time, as long as it is done prospectively. The employer may place additional restrictions on the contribution election as long as the same restrictions apply to all employees.

NOTE: *The comparability rule does not apply to contributions made through a cafeteria plan. As a result, matching contributions that would otherwise violate the comparable contribution rules may be made to HSAs through a cafeteria plan.*

Accelerated Contributions

If an employee elects to make HSA contributions through an employer's cafeteria plan, the employer may choose to make an accelerated contribution up to the maximum amount elected by the employee. The employer may do this to cover qualified medical expenses incurred by the employee that exceed the employee's current HSA balance.

Accelerated contributions must be equally available to all participating employees throughout the plan year, and the employer must provide accelerated contributions to all participating employees on the same terms.

Negative Election

Employers may automatically enroll employees in a salary deferral arrangement for HSAs offered through cafeteria plans.

Job Aids

High Deductible Health Plan (HDHP) Requirements – Page 6

Minimum Annual Deductible*	2019	2020
Self-Only Coverage	$1,350	$1,400
Family Coverage Family coverage is a health plan covering one HSA-eligible individual and at least one other individual, irrespective of whether the other individual is an HSA-eligible individual.	$2,700	$2,800
Maximum Annual Out-of-Pocket*	**2019**	**2020**
Self-Only Coverage	$6,750	$6,900
Family Coverage	$13,500	$13,800

* The limits are subject to annual cost-of-living adjustments (COLAs), which generally are released in the second quarter for the following year.

HSA Regular Contribution Limits – Page 25

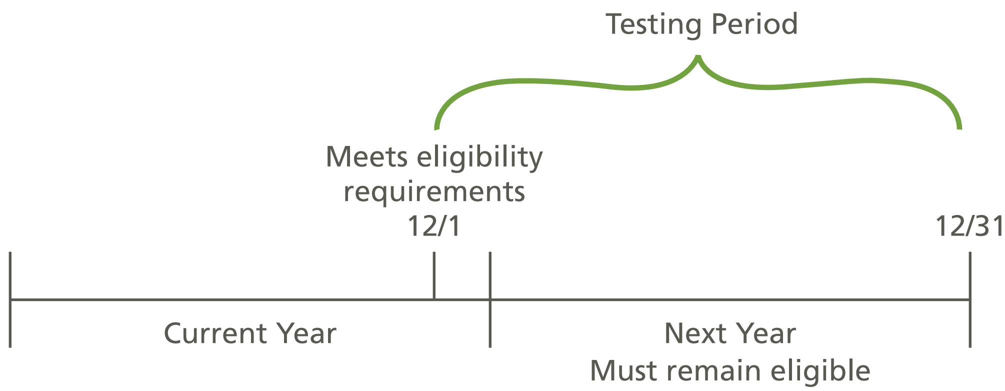
Regular Contributions*	2019	2020
Self-Only Coverage Annual Limit	$3,500	$3,550
Family Coverage Annual Limit	$7,000	$7,100

* The limits are subject to annual COLAs, which generally are released in the second quarter for the following year.

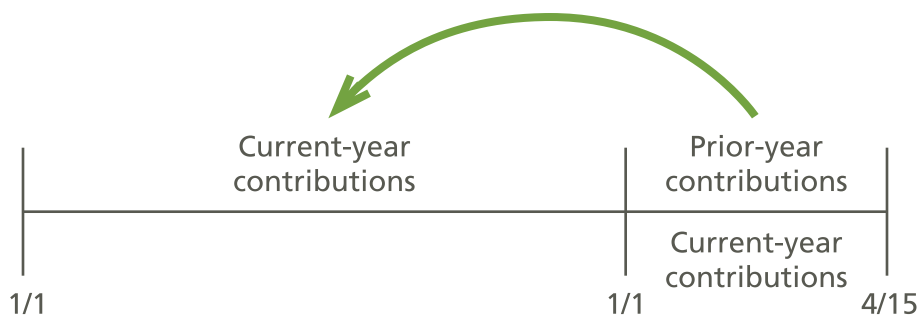
HSA Catch-up Contribution Limits – Page 26

Catch-up Contributions	2019	2020
Annual Limit	$1,000	$1,000

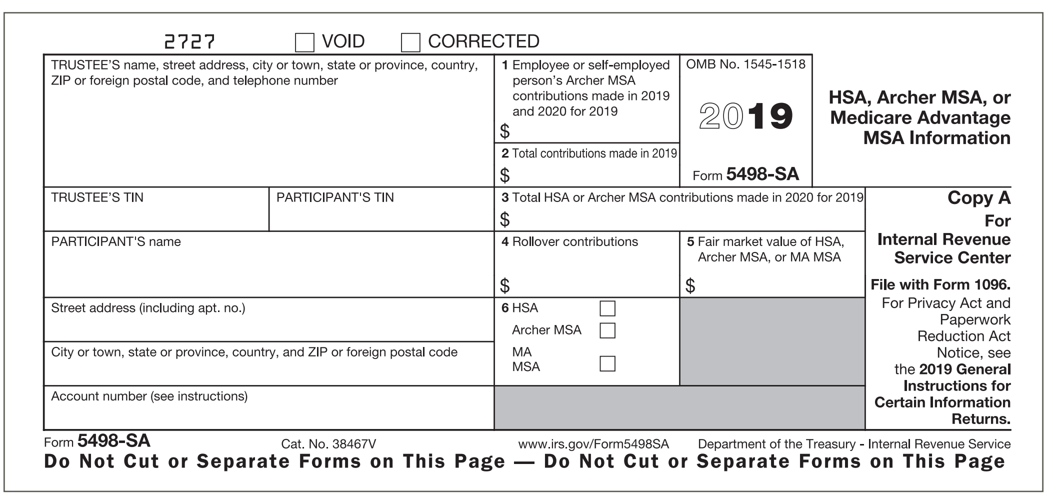
Testing Period – Page 30



Annual Contribution Deadline – Page 32



2019 IRS Form 5498-SA – Page 36



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
$

2 Total contributions made in 2019
$

OMB No. 1545-1518
2019
Form 5498-SA

HSA, Archer MSA, or Medicare Advantage MSA Information

TRUSTEE'S TIN | PARTICIPANT'S TIN

3 Total HSA or Archer MSA contributions made in 2020 for 2019
$

PARTICIPANT'S name

4 Rollover contributions
$

5 Fair market value of HSA, Archer MSA, or MA MSA
$

Street address (including apt. no.)

6 HSA ☐
Archer MSA ☐
MA MSA ☐

City or town, state or province, country, and ZIP or foreign postal code

Account number (see instructions)

Copy A
For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the **2019 General Instructions for Certain Information Returns.**

Form **5498-SA** Cat. No. 38467V www.irs.gov/Form5498SA Department of the Treasury - Internal Revenue Service

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Regulation E

Regulation E is a federal banking regulation that protects consumers by mandating extensive disclosures and authorization requirements for electronic funds transfers. In 2006, amendments to Regulation E clarified that cards used solely for health-related expenses, such as those for HSAs, are not subject to Regulation E.

Financial organizations that offer HSAs with a debit card payment option are not subject to these regulations for the HSA electronic funds transfers. The regulations indicate that the Federal Reserve System Board of Governors will continue to monitor the development of the prepaid card market and could reconsider whether Regulation E should govern cards used for these health-related expenses.

2018 IRS Form 8889

Form **8889**
Department of the Treasury
Internal Revenue Service

Health Savings Accounts (HSAs)

▶ Attach to Form 1040 or Form 1040NR.
▶ Go to *www.irs.gov/Form8889* for instructions and the latest information.

OMB No. 1545-0074
2018
Attachment Sequence No. 52

Name(s) shown on Form 1040 or Form 1040NR	Social security number of HSA beneficiary. If both spouses have HSAs, see instructions ▶

Before you begin: Complete Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, if required.

Part I **HSA Contributions and Deduction.** See the instructions before completing this part. If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part I for each spouse.

1	Check the box to indicate your coverage under a high-deductible health plan (HDHP) during 2018 (see instructions) . . . ▶ ☐ Self-only ☐ Family		
2	HSA contributions you made for 2018 (or those made on your behalf), including those made from January 1, 2019, through April 15, 2019, that were for 2018. **Do not** include employer contributions, contributions through a cafeteria plan, or rollovers (see instructions) . . .	2	
3	If you were under age 55 at the end of 2018, and on the first day of **every** month during 2018, you were, or were considered, an eligible individual with the **same** coverage, enter $3,450 ($6,900 for family coverage). **All others,** see the instructions for the amount to enter . . .	3	
4	Enter the amount you and your employer contributed to your Archer MSAs for 2018 from Form 8853, lines 1 and 2. If you or your spouse had family coverage under an HDHP at any time during 2018, also include any amount contributed to your spouse's Archer MSAs . . .	4	
5	Subtract line 4 from line 3. If zero or less, enter -0- . . .	5	
6	Enter the amount from line 5. But if you and your spouse each have separate HSAs and had family coverage under an HDHP at any time during 2018, see the instructions for the amount to enter . . .	6	
7	If you were age 55 or older at the end of 2018, married, and you or your spouse had family coverage under an HDHP at any time during 2018, enter your additional contribution amount (see instructions) . . .	7	
8	Add lines 6 and 7 . . .	8	
9	Employer contributions made to your HSAs for 2018 . . . **9**		
10	Qualified HSA funding distributions . . . **10**		
11	Add lines 9 and 10 . . .	11	
12	Subtract line 11 from line 8. If zero or less, enter -0- . . .	12	
13	**HSA deduction.** Enter the **smaller** of line 2 or line 12 here and on Schedule 1 (Form 1040), line 25, or Form 1040NR, line 25 . . .	13	
	Caution: If line 2 is more than line 13, you may have to pay an additional tax (see instructions).		

Part II **HSA Distributions.** If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part II for each spouse.

14a	Total distributions you received in 2018 from all HSAs (see instructions) . . .	14a	
b	Distributions included on line 14a that you rolled over to another HSA. Also include any excess contributions (and the earnings on those excess contributions) included on line 14a that were withdrawn by the due date of your return (see instructions) . . .	14b	
c	Subtract line 14b from line 14a . . .	14c	
15	Qualified medical expenses paid using HSA distributions (see instructions) . . .	15	
16	**Taxable HSA distributions.** Subtract line 15 from line 14c. If zero or less, enter -0-. Also, include this amount in the total on Schedule 1 (Form 1040), line 21, or Form 1040NR, line 21. On the dotted line next to line 21, enter "HSA" and the amount . . .	16	
17a	If any of the distributions included on line 16 meet any of the **Exceptions to the Additional 20% Tax** (see instructions), check here . . . ▶ ☐		
b	**Additional 20% tax** (see instructions). Enter 20% (0.20) of the distributions included on line 16 that are subject to the additional 20% tax. Also include this amount in the total on Schedule 4 (Form 1040), line 62, or Form 1040NR, line 60. Check box c on Schedule 4 (Form 1040), line 62, or box b on Form 1040NR, line 60. Enter "HSA" and the amount on the line next to the box . .	17b	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37621P Form **8889** (2018)

HSA Beneficiaries – Page 57

Spouse Beneficiary	If the beneficiary is a spouse, the HSA is treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses are exempt from federal income tax and penalties.
Nonspouse Beneficiary	If a nonspouse is the beneficiary, the HSA ceases to be an HSA as of the date of death. The nonspouse death beneficiary must include the HSA's fair market value (FMV) in his income for the year of death. **NOTE:** *The amount that a death beneficiary must include in income is reduced by any payments made by the HSA for the decedent's qualified medical expenses, if paid within one year after death.*
Estate Beneficiary	If the HSA owner's estate is the beneficiary, the HSA ceases to be an HSA as of the date of death. The estate must include the HSA's FMV as income on the HSA owner's final tax return.

2019 IRS Form 1099-SA – Page 58

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			OMB No. 1545-1517 2019 Form **1099-SA**	**Distributions From an HSA, Archer MSA, or Medicare Advantage MSA**
PAYER'S TIN	RECIPIENT'S TIN	1 Gross distribution $	2 Earnings on excess cont. $	**Copy A For Internal Revenue Service Center**
RECIPIENT'S name		3 Distribution code	4 FMV on date of death $	**File with Form 1096.**
Street address (including apt. no.)		5 HSA ☐ Archer MSA ☐ MA MSA ☐		For Privacy Act and Paperwork Reduction Act Notice, see the **2019 General Instructions for Certain Information Returns.**
City or town, state or province, country, and ZIP or foreign postal code				
Account number (see instructions)				

Form **1099-SA** Cat. No. 38471D www.irs.gov/Form1099SA Department of the Treasury - Internal Revenue Service

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IRS Distribution Codes – Page 59

Distribution Codes	Definitions
Code 1	Use this code for normal distributions to the HSA owner and any direct payments to a medical service provider. Use this code if no other code applies.
Code 2	Use this code for distributions of excess HSA contributions removed before the HSA owner’s tax return due date, plus extensions.
Code 3	Use this code if the distribution was made after the HSA owner was disabled.
Code 4	Use this code for distributions to an estate beneficiary in any year and distributions to a nonspouse beneficiary in the year of the HSA owner’s death.
Code 6	Use this code for distributions to a nonspouse beneficiary in a year after the year of the HSA owner’s death.

HSA Governmental Resources – Page 70

- IRC Sec. 223
- IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*
- IRS Publication 502, *Medical and Dental Expenses*
- IRS Notice 2004-2 (This notice provides certain basic information about HSAs in question and answer format.)
- IRS Notice 2004-50 (This notice provides guidance on HSAs.)
- IRS Notice 2008-52 (This notice provides guidance on HSA contributions under amendments to the Internal Revenue Code included in the Tax Relief and Health Care Act of 2006.)
- IRS Notice 2008-59 (This notice addresses additional HSA questions not answered in Notices 2004-2 and 2004-50.)
- IRS Form 5305-B, *Health Savings Trust Account*
- IRS Form 5305-C, *Health Savings Custodial Account*
- IRS Form 1099-SA, *Distributions from an HSA, Archer MSA, or Medicare Advantage MSA*, and instructions
- IRS Form 5498-SA, *HSA, Archer MSA, or Medicare Advantage MSA Information*, and instructions

Glossary

20 percent penalty tax: Applies to nonqualified distributions unless the HSA owner has died, is disabled, or has attained age 65. The penalty tax is in addition to federal income tax that may be due.

60-day rule: A period of time between a distribution and a subsequent rollover contribution. A distribution from an Archer MSA or HSA must be deposited into an HSA within 60 days of receipt to qualify as a rollover.

A

Archer Medical Savings Account (MSA): Tax-favored consumer savings arrangements designed exclusively for the purpose of paying medical expenses in conjunction with a high deductible health plan (HDHP). MSA eligibility is restricted to self-employed individuals or employees of small employers.

B

Beneficiary: See “Primary Beneficiary” or “Contingent Beneficiary”.

C

Cafeteria Plan: A written plan established by an employer, under which all participants are employees (also called flexible spending arrangement or FSA). Cafeteria plans are governed by IRC Sec. 125. Participants may choose between receiving a portion of their salary in cash or deferring it into the plan to receive nontaxable qualified benefits, such as health care expense reimbursement.

Catch-Up Contribution: A catch-up contribution is an additional contribution made by eligible individuals who are age 55 and older. A catch-up contribution is in addition to the regular annual contribution limit.

Community/Marital Property: All wages and certain other property acquired by either spouse while a couple lives in a community/marital property state, which is thereafter owned as community/marital property by both spouses.

Contingent Beneficiary: Any individual or entity that will receive the HSA assets upon the HSA owner’s death, but only if no named primary beneficiaries qualify to receive the assets.

Custodial Agreement: The contract between an HSA owner and a financial organization serving as the HSA custodian.

Custodian: A bank, credit union, or other financial organization as defined in IRC Sec. 408(n), or any organization that has the approval of the IRS to act as custodian. Any organization that may serve as a custodian of an IRA may serve as a custodian of an HSA.

D

Deductible: For health insurance purposes, the amount the insured is required to pay before any benefits will be reimbursed.

Deduction: The total amount of HSA contributions made by an eligible individual, or on behalf of an eligible individual by someone other than the individual's employer, that may be deducted on the HSA owner's federal income tax return for the applicable year.

Disabled: Someone who is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment, which can be expected to result in death or to be of long continued and indefinite duration.

Disclosure Statement: A document that explains the HSA rules and regulations in nontechnical language.

Distribution Code: The IRS code assigned to a specific type of HSA distribution for reporting purposes.

E

Employer Contributions: Contributions made by employers to their employees' HSAs. If an employer chooses to make HSA contributions to any employee's HSA, the employer generally must make comparable contributions on behalf of all comparable participating employees.

Estate: A legal entity established to dispose of the assets and liabilities of an individual following death.

Excess Contribution: An excess contribution to an HSA is a contribution made to the HSA that exceeds the individual's contribution limit for the year or a contribution made to the HSA of an ineligible individual. If an excess contribution is not removed timely, the HSA owner must pay a six percent penalty tax.

F

Fair Market Value (FMV): The fair market value is the value of an HSA at a given point in time. The IRS requires annual FMV reporting.

Family Coverage: Any health coverage that covers one HSA-eligible individual and at least one other individual regardless of whether the other individual is HSA-eligible.

Fiduciary: A fiduciary is someone who has discretionary authority or responsibility in administration of a plan or has discretionary authority or control for management or disposition of plan assets. It also is someone who provides or has authority to provide investment advice for a fee or other compensation (direct or indirect) with respect to money or other property of a plan.

FMV: See "Fair Market Value".

G

Grace Period: Under a health FSA grace period, employees may use contributions remaining at the end of the immediately preceding plan year to pay or reimburse qualified expenses incurred during the grace period, rather than lose such amounts after the end of the plan year. An FSA grace period may be up to 2½ months after the end of the plan year.

H

Health Reimbursement Arrangement (HRA): A benefit plan established by an employer under which the employer sets aside funds to reimburse employees for specified medical expenses.

Health Savings Account (HSA): A trust or custodial account that is created or organized in the United States exclusively for the purpose of paying the qualified medical expenses of the HSA owner, the HSA owner's spouse, and dependents.

High Deductible Health Plan (HDHP): A health insurance plan that satisfies both an annual deductible and an out-of-pocket expense cap requirement. The definition of an HDHP for purposes of HSA contribution eligibility generally depends on whether the health plan covers a single individual or a family.

I

Irrevocable: Not allowed to be reversed or changed.

L

Limited-Purpose FSA or HRA: Limited-purpose arrangements (FSA or HRAs) that pay or reimburse, pursuant to a written plan document, specific expenses.

M

Medicare: The United States' health insurance program for individuals age 65 or older, some disabled individuals under age 65, and individuals who have permanent kidney failure treated with dialysis or a transplant. The program helps with the cost of health care, but it does not cover all medical expenses or the cost of most long-term care.

Mistaken Distribution: Amounts that were distributed from an HSA as a result of reasonable cause because of a mistake of fact. If the financial organization allows, the HSA owner may repay the mistaken distribution to the HSA.

N

Net Income Attributable (NIA): NIA is the amount of income earned by an excess contribution to an HSA. To determine the NIA, the amount of the excess contribution is multiplied by the amount of the total earnings on the HSA and then the product is divided by the adjusted opening balance.

Nonspouse Beneficiary: Any person other than the HSA owner's spouse who is entitled to receive assets from the HSA after the HSA owner's death.

Nonqualified Distribution: A distribution that is not used to pay or reimburse the HSA owner for qualified medical expenses. Nonqualified distributions are subject to federal income tax and generally to the additional 20 percent penalty tax.

O

One-Per-12-Month Rule: An HSA owner may roll over only one rollover contribution per 12 months. That is, one year must pass from the date of the rollover contribution to the HSA before an HSA owner is eligible to roll over another contribution.

Out-of-Pocket Expense: Amounts included in the out-of-pocket expense limit include deductibles, copayments, and other amounts.

P

Plan Agreement: The contract between an HSA owner and a financial organization that contains the terms and conditions of the HSA. The plan agreement creates an HSA. An HSA plan agreement can be the IRS model Forms 5305-B, *Health Savings Trust Account*, or 5305-C, *Health Savings Custodial Account*, a custom-designed form, or a standardized form set from a document provider. This is an IRS required opening document.

Power of Attorney: A written document authorizing one person (known as the attorney-in-fact or agent) to act on behalf of another person (known as a principal or grantor).

Primary Beneficiary: An individual or entity that is entitled to receive HSA assets upon the HSA owner's death.

Prior-Year Contribution: An HSA regular contribution made between January 1 and the deadline for filing the federal income tax return (usually April 15) that is attributed to the preceding tax year.

Prohibited Transaction: A transaction between the HSA owner and a party of interest (referred to as a disqualified person), which is prohibited under IRC Sec. 4975. For HSAs, these transactions include taking a loan from an HSA, pledging or assigning the HSA as security for a debt, and investing HSA assets in collectibles or life insurance.

Q

Qualified Distribution: A nontaxable distribution taken to pay or reimburse the HSA owner for qualified medical expenses of the HSA owner, the HSA owner's spouse, or the HSA owner's dependents.

Qualified HSA Funding Distribution: A direct movement of assets from a Traditional or Roth IRA into an HSA.

Qualified Medical Expense: Expenses incurred after an HSA has been established, that are not covered by insurance, and that are paid by the HSA owner, his spouse, or dependents.

R

Regular Contribution: Cash contributions made by or on behalf of an HSA owner. Contribution eligibility is determined monthly on the first day of each month.

Rollover: A tax-free movement of cash from one HSA to another or from an Archer MSA to an HSA. Unlike HSA-to-HSA or MSA-to-HSA transfers, in a rollover, the HSA owner actually takes constructive receipt of the HSA assets before redepositing them into an HSA.

T

Tax-Deferred: Earnings that are not subject to tax until a later date, usually when they are distributed. If earnings are taken as part of a qualified distribution, the earnings are tax-free.

Transfer: A tax-free, nonreportable movement of assets from an Archer MSA or HSA to an HSA, when the HSA owner does not have constructive receipt of the assets.

Trustee: A bank, credit union, or other financial organization as defined in IRC Sec. 408(n), or any person who has the approval of the IRS to act as a trustee. Any person who may serve as the trustee of an IRA may serve as the trustee of an HSA.

Exercise Answers

Introduction to HSAs – Page 9

1. HSAs are designed to cover medical expenses incurred by whom?

   The HSA owner, the HSA owner's spouse, and the HSA owner's dependents

2. Complete the chart.

Minimum Annual Deductible	2019	2020
Self-Only Coverage	**$1,350**	$1,400
Family Coverage	**$2,700**	$2,800
Maximum Annual Out-of-Pocket	**2019**	**2020**
Self-Only Coverage	**$6,750**	$6,900
Family Coverage	**$13,500**	$13,800

Establishing an HSA – Page 23

1. What are the three options financial organizations may use for the HSA plan agreement?

   IRS HSA model document Form 5305-B or Form 5305-C

   Custom-designed document

   Customized Form 5305-B or 5305-C from a forms vendor

2. If financial organizations choose to provide their clients with a disclosure statement that explains the current HSA rules, what are the two options that may be used?

   IRS Publication 969 or a specifically drafted HSA disclosure statement from a forms provider

HSA Funding – Page 38

1. Complete the chart.

Regular Contributions	2019	2020
Self-Only Coverage Annual Limit	**$3,500**	**$3,550**
Family Coverage Annual Limit	**$7,000**	**$7,100**

2. Jeff, age 39, and Gretchen, age 42, are married. They enroll in family coverage under Jeff's HDHP on October 1, 2019, and are otherwise eligible individuals for the rest of the year. They have decided to contribute to Gretchen's HSA. What is the maximum amount that may be contributed for 2019? Why?

   The maximum amount that they can contribute for 2019 is $7,000 (the statutory limit for family coverage) because it is greater than the sum of the monthly contribution limits for October, November, and December, which is $1,750 ($7,000/12 x 3). Under the last month rule, Jeff and Gretchen are covered under a family HDHP on December 1, 2019, and are allowed to contribute the greater of the two amounts.

HSA Distributions – Page 60

1. Jason opened his HSA on April 12, 2019, with a contribution of $2,000 for 2018. His total unreimbursed medical expenses for 2019 are $150 from his doctor visit on January 10, 2019. If he withdraws the amount from his HSA, does he have a qualified distribution or a nonqualified distribution? Why?

   Qualified Distribution **Nonqualified Distribution**

   Qualified distributions are distributions for medical expenses that are incurred after the HSA has been established. Because the HSA was established on April 12, 2019, the expense from January 10, 2019, is nonqualified.

2. Which IRS Publication contains a partial listing of qualified medical expenses?

   IRS Publication 502, *Medical and Dental Expenses*

HSA Portability – Page 64

1. Individuals may transfer or roll over assets from which account types into an HSA?

   Archer medical savings accounts (MSAs) and health savings accounts (HSAs)

2. If Sally requested Sunset Financial to issue a check from her HSA payable to Vista Financial for benefit of Sally Larson's HSA, by when must the assets be deposited to her HSA at Vista Financial? Why?

   There is no deadline to complete the transfer.

   There are no time limitations when the HSA owner does not have constructive receipt of the HSA assets.

HSA Compliance – Page 71

Action	Financial Organization	HSA Owner
Provide a current plan agreement	X	
Submit Form 1099-SA to the IRS	X	
Submit Form 8889 to the IRS		X
Determine eligible contribution amount		X
Verify contribution type and tax year	X	
Report contributions to the IRS	X	
Choose how to invest the HSA assets		X
Determine taxable amount on any distribution		X

Which plan is considered an HDHP? – Page 73

Scenario one

In 2019, Steve Johnson provides coverage for himself and his family. The plan has a $5,000 family deductible with a $1,100 individual deductible and a $10,000 out-of-pocket expense limit.

Scenario two

In 2019, Steve Johnson provides coverage for himself and his family. The plan has a $5,000 family deductible with a $2,700 individual deductible and a $10,000 out-of-pocket expense limit.

The plan in scenario two is considered an HDHP because no amounts are payable from the health plan until the family incurs covered medical expenses in excess of the minimum annual deductible.

Is the plan described below an HDHP? – Page 74

Sarah has self-only coverage under her health plan for 2019. She may access services from a network of preferred providers, or she may choose to receive services from out-of-network providers. When she uses in-network providers, her health plan has a $1,350 deductible and a $4,000 out-of-pocket expense limit. Alternatively, when she accesses services from out-of-network providers, her deductible is $2,000, and her out-of-pocket expense limit is $12,000.

Yes, Sarah's plan is an HDHP. Even though the $12,000 out-of-pocket expense limit exceeds the self-only coverage maximum, this limit is disregarded for purposes of HDHP determination because it applies to out-of-network services.