ascend 2019

# Introduction to HSAs

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# Table of Contents

HSA History . . . . . . . . . . 1

Eligible Individuals . . . . . . . . . . 2

HSA Eligibility Documentation . . . . . . . . . . 2

HDHP Requirements. . . . . . . . . . 3

Establishing an HSA . . . . . . . . . . 4

HSA Contribution Limits . . . . . . . . . . 5

Regular Contributions . . . . . . . . . . 5

Catch-up Contributions . . . . . . . . . . 6

Aggregated Contributions . . . . . . . . . . 6

Annual Contribution Deadline . . . . . . . . . . 8

Prior-Year Contributions . . . . . . . . . . 8

HSA Distributions . . . . . . . . . . 9

Qualified Distributions. . . . . . . . . . 10

Qualified Medical Expenses . . . . . . . . . . 10

Nonqualified Distributions . . . . . . . . . . 11

Job Aids. . . . . . . . . . 13

## Learning Objectives

At the completion of this course you will be able to

- explain HSA eligibility and contribution rules,
- better assist clients in establishing an HSA,
- understand the requirements of a high deductible health plan (HDHP), and
- define the difference between qualified and nonqualified HSA distributions.

## Icon Legend

Individual Exercise

Group Exercise

Group Discussion

Example

Job Aid

Additional Information

## HSA History

A health savings account (HSA) is a tax-favored consumer savings arrangement for individuals covered by high deductible health insurance plans (Internal Revenue Code Section 223). The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created HSAs, which became available January 1, 2004.

An HSA is an IRA-like account designed to cover medical expenses incurred by the HSA owner, the HSA owner's spouse, and the HSA owner's dependents. HSA rules mirror many of the rules that apply to IRAs.

An HSA has many advantages.

- Cost savings – Although the deductibles generally are higher, premiums for HSA-compatible high deductible health plans (HDHPs) are usually much lower than premiums for other health plans, creating a potential cost savings for covered individuals and employers.
- Tax advantages – HSA contributions are tax deductible and grow tax deferred. HSA distributions are tax-free if used to pay for qualified medical expenses.
- Covers wide range of expenses – HSA assets can be used to pay for a wide range of medical expenses, including medical, dental, and vision care.
- Flexible – HSA owners control their HSAs and make all decisions about whether to pay health care expenses from their HSAs or save the assets for future medical expenses.
- No "use it or lose it" rule – Unlike flexible spending accounts, HSA assets not used during a tax year are not forfeited; the assets remain in the HSA to be used by the HSA owner in the future.
- Portable – HSA owners may move their HSA assets to another financial organization, even if the contributions were made by their employers.

## Eligible Individuals

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 Eligibility Documentation

The IRS does not require financial organizations to verify eligibility, but financial organizations may ask individuals to certify that they are eligible to establish an HSA.

Many document providers, such as Ascensus, have an eligibility form that financial organizations may find helpful in certifying an HSA owner's eligibility.

## 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*<br>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 |

*An HSA is an individual account. A joint HSA or family HSA is not permitted.

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

## Establishing an HSA

Any eligible individual can establish an HSA with an authorized HSA trustee or custodian. An eligible individual who also is an employee may establish an HSA with or without the involvement of an employer.

To establish an HSA, the IRS requires the financial organization and the HSA owner to sign an HSA document. Financial organizations may use one of the following documents to establish an HSA.

- 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 provider

If required by the financial organization,

- complete an HSA application;
- hand out an HSA disclosure statement (IRS Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*, or a specifically drafted HSA disclosure statement from a forms provider); and
- hand out any additional regulatory documents.

**NOTE:** *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 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 an individual has. Individuals who contribute to an HSA are not required to have earned income and are not subject to a maximum income amount.

### *Prorated Contribution Eligibility*

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. For example, the sum of the monthly limits for an individual with self-only coverage who is eligible January, February, March, April, and May 2019 is $1,458.33 ($3,500/12 x 5).

### *Full-Year Contribution Eligibility*

If an individual is not eligible for the entire year but 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 eligible.

Note that to be eligible for the full-year contribution, the individual must remain eligible for a 13-month testing period, which runs from December 1 of the current year to December 31 of the following year.

| 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.

For an HSA owner and her spouse who also has an HSA, if one or both spouses have family HDHP coverage, the spouses may divide the maximum annual family contribution amount between their HSAs however they choose. The spouses are not allowed to each contribute the maximum family amount.

## 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 catchup contribution must be made to each eligible individual's HSA.

| Catch-Up Contributions | 2019 | 2020 |
|---|---|---|
| Annual Limit | $1,000 | $1,000 |

## 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 medical savings account (MSA) contributions and qualified HSA funding distributions made for that same calendar year.

### *HSA Contributions*

Esther, age 53, and Thad, age 56, are married. They have family coverage under Esther's HDHP and are otherwise eligible individuals.

*If Esther contributes $4,000 to her HSA for 2019, how much is Thad allowed to contribute to his HSA for 2019? Why?*

### *HSA Catch-Up Contributions*

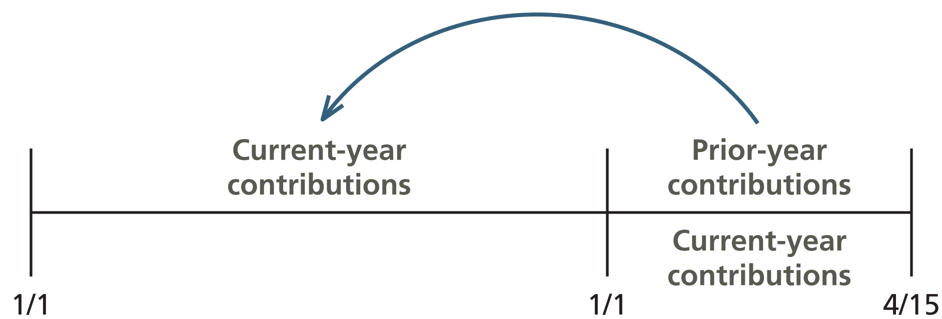
Melissa, age 57, and David, age 55, are married. They have family coverage under Melissa's HDHP and are otherwise eligible individuals.

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

# 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 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, Joel, age 23, began self-only coverage under an HDHP. That same year, he established and funded an HSA. Joel continues to make annual HSA contributions for the next 15 years without taking any HSA distributions. In 2034, Joel has his first child and changes coverage from an HDHP to a nonHDHP. Over the years, Joel's HSA balance has grown to $50,000.

Although Joel is no longer eligible to make HSA contributions, he still may keep his HSA and take qualified distributions to pay for medical expenses that occurred after he established his 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 dependent is not an HSA-eligible individual.

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.

## 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

Once the HSA owner attains age 65, the assets in the HSA may be used for qualified or nonqualified distributions, including as a supplement to his retirement income.

## *HSA Overview*

1. Jenny, age 48, and Jonathan, age 57, had family HDHP coverage for all of 2019. So far in 2019, Jenny has contributed $3,000 to her HSA. How much more can Jenny contribute to her HSA for 2019? If she makes the maximum contribution to her HSA, how much may Jonathan contribute to his own HSA for 2019?

2. Molly began her new job on June 1, 2019. There was a 30-day waiting period before she was covered by the HDHP. When was Molly eligible to establish an HSA?
   **Circle the correct answer.**

   **June 1, 2019** **June 30, 2019** **July 1, 2019** **July 31, 2019**

3. Hazel, single and age 57, has self-only coverage under her HDHP and is otherwise an eligible individual. She is eligible to establish an HSA in August 2019. How much is Hazel eligible to contribute for 2019?

4. Roy was an eligible individual for all of 2018. He opened his HSA on April 15, 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**

# Job Aids

## *Ascensus' HSA Simplifier® (portion)*

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 ____________________________________

3499 / 2600H-T (Rev. 10/2018)

**Page 1 of 8**

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 __________

## 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)*

**Page 2 of 8**

3499 / 2600H-T (Rev. 10/2018)

# 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.

3499 / 2600H-T (Rev. 10/2018)

**Page 3 of 8**

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.

## *Ascensus' HSA Contribution and Investment Selection (portion)*

# 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)*

3107 / 2614H (Rev. 10/2015)

**Page 1 of 2**

ascend 2019

## *Ascensus' HSA Withdrawal Authorization (portion)*

**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)*

3314 / 2606H (Rev. 4/2015)

**Page 1 of 2**

# Exercise Answers

## *HSA Overview*

1. Jenny, age 48, and Jonathan, age 57, had family HDHP coverage for all of 2019. So far in 2019, Jenny has contributed $3,000 to her HSA. How much more can Jenny contribute to her HSA for 2019? If she makes the maximum contribution to her HSA, how much may Jonathan contribute to his own HSA for 2019?

   **Jenny can contribute up to $4,000. If she contributes that amount, she will have made the maximum contribution allowed for the year. Thus, Jonathan can only contribute up to $1,000—his own catch-up contribution amount.**

2. Molly began her new job on June 1, 2019. There was a 30-day waiting period before she was covered by the HDHP. When was Molly eligible to establish an HSA?
   **Circle the correct answer.**

   **June 1, 2019** **June 30, 2019** **July 1, 2019** **July 31, 2019**

3. Hazel, single and age 57, has self-only coverage under her HDHP and is otherwise an eligible individual. She is eligible to establish an HSA in August 2019. How much is Hazel eligible to contribute for 2019?

   **As long as Hazel remains an eligible individual through December 31, 2020, she is eligible to contribute $4,500 for 2019.**

4. Roy was an eligible individual for all of 2018. He opened his HSA on April 15, 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 medical expenses that are incurred after the HSA has been established. Because the HSA was not established until April 15, 2019, the distribution taken to cover the expense from January 10, 2019, is nonqualified.**