Enrollment Guide

Contents

Enroll in SimplyHSA to pay less for health care expenses and save for the future.

Use **tax-free dollars** to pay for eligible health care using the savings account that stays with you.

Introduction to SimplyHSA

What is an HSA?

How a Health Savings Account Works

SimplyHSA from Employee Benefits Corporation is a health savings account (HSA) that can be used to pay for medical, dental, vision and other qualified health expenses now or later in life. To contribute to an HSA you must be enrolled in a qualified High-Deductible Health Plan and your contributions are limited annually. If your employer offers payroll deduction, you'll see immediate tax savings on your contributions.

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You can use the money tax-free to pay for eligible expenses such as:

- Copays & deductibles
- Hearing aids
- Prescriptions
- Laser eye surgery
- Dental care
- Orthodontia
- Contacts & eyeglasses
- Chiropractic care

Since it is a savings account, you are encouraged to save more than you spend. Unlike flexible spending account (FSA) funds which are "use-it-or-lose-it," your HSA balance rolls over from year-to-year earning interest along the way. The account is portable, meaning if you ever leave your employer, you can take the HSA with you because it's your money and your account.

To be eligible for an HSA, you must:

- Be covered under a qualified High-Deductible Health Plan (HDHP)
- NOT also be covered by a non-qualified plan (by a spouse, for example) that has full FSA or HRA benefits
- NOT be eligible for Medicare (age 65) or if eligible for Medicare, NOT be enrolled in Part A, B, or D
- NOT be a dependent on another person's tax return

Simply Smart

As long as you remain HSA-eligible, you can continue to make contributions to your HSA. If there is a change in your employment, your employer-sponsored HSA will transition to an individual HSA with Employee Benefits Corporation.

You don't have to use up all your HSA funds before a certain date. That makes this account different from other employer plans such as FSAs, and most Health Reimbursement Arrangements (HRAs). There is also no minimum balance to maintain for your HSA, and your account can even earn tax-free interest.

HSA is the account for individuals that want to have a backup plan for unexpected medical expenses in the days, months, and years to come.

Annual Contribution Limits

The IRS puts an annual limit on your contributions to an HSA from all sources. Be sure to be aware of the limit for each year in which contributions will be deducted from your paycheck, and plan your contribution amounts accordingly.

- **2022** Annual HSA Contribution Limits: **$3,650** for single coverage, **$7,300** for family coverage
- **2023** Annual HSA Contribution Limits: **$3,850** for single coverage, **$7,750** for family coverage

Individuals aged 55 and older may contribute an additional **$1,000** each year. The $1,000 is in addition to the single or family HSA Contribution Limit, whichever is applicable to that individual.

HSAs offer a triple tax advantage

1. Money goes in tax-free

Employers can offer a payroll deduction through a Section 125 Cafeteria Plan, allowing you to make contributions to your HSA on a pre-tax basis. The deduction is deposited into your HSA prior to taxes being applied to your paycheck, making your savings immediate. You can also contribute to your HSA post-tax and recognize the same tax savings by claiming the deduction when filing your annual taxes.

2. Money comes out tax-free

Eligible medical purchases can be made tax-free when you use your HSA. To use funds in your HSA you may use your Benefits Card, online bill pay; or, for out-of-pocket expenses, you may reimburse yourself directly from your HSA.

3. Earn interest, tax-free

The interest on HSA funds grows on a tax-free basis. Unlike most savings accounts, interest earned on an HSA is not considered taxable income when the funds are used for eligible medical expenses.

One and Done

At the doctor's office or pharmacy? Using the ***Employee Benefits Corporation Benefits Card*** you can pay directly from your HSA. With the Benefits Card, there's no paying for copays or prescriptions out-of-pocket.

In the event of an audit, be sure to save documentation from each transaction.

Why pay more than you have to?

The HSA makes it easy to set aside a portion of your earnings to pay for certain health care expenses. Because the dollars in your HSA are exempt from Federal, State and FICA taxes, you'll save approximately 30%[1] in taxes for each dollar you contribute.

For example, a $20 prescription could cost $14 with an HSA, and a $30 health insurance premium could cost you $21.

[1]These tax examples are broad approximations of tax liability. You should consult a tax advisor for help with your own situation. Current IRS tax laws control all HSA matters.

Eligible Expenses

These savings can be applied to a variety of expenses. Prescription medicines, dental expenses, contact lenses, and prescription eyeglasses are just a few of the common expenses on which an HSA helps you save money. *(Refer to IRS Publication 502 for more information.)*

It is important to remember that expenses are only eligible for HSA if they were incurred **after** your HSA has been funded.

Are you eligible for an HSA?

You must answer "True" to each of the following in order to be eligible for an HSA.

- I am covered under a qualified High Deductible Health Plan (HDHP).
- I am NOT covered by a non-qualified plan (by a spouse, for example), including traditional insurance, full FSA or full HRA benefits.
- I am NOT eligible for Medicare (age 65) or if I am eligible, I am NOT enrolled in Part A, B or D.
- I am NOT a dependent on another person's tax return.

If you answered "false" to any of these statements, you are **not eligible** for an HSA.

How an HSA Works

When you enroll in the HSA, you set aside a portion of your pay to spend on eligible health care expenses. Throughout the year, these elections are deducted from your paychecks (and/or contributed by your employer, in some cases) and placed in an HSA. The usual payroll taxes do not apply to your contributions to your HSA through payroll deductions if your employer offers a Section 125 plan. You can also contribute directly to your HSA on a post-tax basis.

An HSA is all yours.

Q. What happens if my employment is terminated?

A. HSAs are portable and stay with you if you change employment. Your HSA belongs to you, not your employer, just like your personal checking account. If you terminate employment, your HSA will remain active and Employee Benefits Corporation will continue to be your source of information regarding your HSA.

Upon termination of employment, you will receive a new Benefits Card for your HSA and welcome communication with additional information.

Triple-Tax Savings

- Contributions are tax-free for you – whether they come from you (as payroll deductions), your employer, or as gifts from friends or relatives
- Your account & investment earnings grow, tax-free
- Withdrawing your money is tax-free, as long as it is used for qualified medical expenses

Grow your account.

The power is yours. You choose whether to save your HSA funds for health care expenses at a later date, or spend the funds now.

The account balance earns interest from year to year. When the balance reaches a certain level, you earn interest, tax-free. Unlike using a 401(k) for savings, HSA contributions are not subject to social security (FICA) and Medicare taxes.

Enrollment in the HSA

We help you set aside the right amount of money for eligible health care expenses when you enroll. Referencing the *SimplyHSA Eligible Expenses List*, you'll be able to estimate how much money you should contribute to your HSA.

Enrolling in a qualified HDHP usually results in premium savings. You can choose to contribute your premium savings as a payroll contribution. This will ensure that you have ample funds available for your medical expenses.

Know what is eligible.

It is important to understand which health care expenses are HSA-eligible.

Most insurance plans pay for only certain services outlined in plan documents from the insurer. The HSA, however, can be used to cover a wider range of expenses than what your insurer or a Health Care FSA covers.

Health Care Visits

- If you have an insurance network plan and providers, the bill may be sent to your insurance company for repricing first. Your bill will be returned to you for payment at a discounted rate.
- On occasion you may be required to pay at the time of service and later be reimbursed.
- If you have questions, ask your insurance provider or your employer

Document Every Purchase

For some it is a shoebox of papers underneath the bed. For others it is a color-coded system of file folders—however you maintain your documentation of health care purchases, just make sure you do it.

Play it safe.

To avoid a 20% penalty and income taxes on non-eligible purchases, make sure to **keep your documentation** or itemized receipts for your health care expenses. Keeping the original documentation is important in the event a claim is questioned during an **IRS** audit.

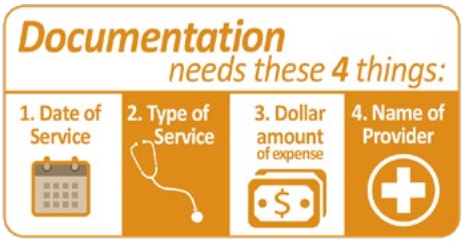
Online Account

After you are enrolled in an HSA, **log in** as a Participant at www.ebcflex.com to see your HSA **account balance** and view amounts and dates of transactions.

Documentation Guidelines

Examples of documentation include itemized receipts or an Explanation of Benefits (EOB). Accurate health care documentation that will pass the IRS standards contains these 4 pieces of information: data of service, type of service, dollar amount of expense, and name of provider.

Keep your HSA documentation as long as the account remains open. *Even if you have transferred your HSA from a different bank or administrator, be sure to keep all the original documents to back up your health care transactions.*



Paying for Health Care with Ease

Because you have enrolled in a qualified HDHP, you do not have to submit claims or wait to be reimbursed for your expenses! With an HSA, accessing your funds to pay for qualified medical expenses is simple and tax-free, using the following options:

- **Benefits Card** – Whether you are at the doctor's office or pharmacy, simply swipe your card and you're done, using the Employee Benefits Corporation Benefits Card.
- **Pay Online, by Phone, or by Mail** – Just provide your Benefits Card account number to complete your transaction.
- **Bill Pay** – Within the Employee Benefits Corporation portal, you can use bill pay to initiate check payments direct to your provider(s).
- **Reimbursing yourself** – If you do not have enough funds in your HSA or prefer to pay out-of-pocket for qualified medical expenses, keep your receipts for your eligible health care purchases. Later on you can choose to reimburse yourself.

Where You Can Use Your Benefits Card

You can use the card to pay for eligible expenses at the pharmacy and medical, dental, and vision providers and merchants. Keep all documents from your transactions with providers.

Avoid Duplicate Payments

Before you pay a doctor's bill or other such expense, check your **Explanation of Benefits (EOB).** The EOB is sent by your health insurance plan. Examine carefully to find out what portion of the bill was paid by your insurance company. You can use your Benefits Card to pay for the remaining portion of the expense not covered by insurance.

Over-the-Counter Medicines

The HSA only reimburses over-the-counter (OTC) medicine expenses with a doctor's prescription for them.

You can use your card to purchase certain **OTC items that are not considered a drug or a medicine**, such as bandages, contact lens solution, heating pads, ice packs, reading glasses and thermometers. You will also be able to use your card to pay for insulin and diabetic supplies. Retain all itemized receipts or documentation of these purchases.

How You Receive Your Benefits Card

Once you enroll in the HSA, the Benefits Card is mailed directly to your home. The envelope will contain your card, a cardholder agreement and an information flyer. Watch for it to arrive within 30 days after your plan start date. You will be able to activate your card instantly by using it for the first time for a purchase of eligible health services or items.

New Year, Same Benefits Card

Your Benefits Card will continue to access your HSA funds year over year when you maintain your employer-sponsored HSA. You will receive a new card 30 days prior to your card expiration date.

Keeping Your Card Active When Your Address or Name Changes

All employee demographic changes need to be sent to Employee Benefits Corporation.

Be sure to update your employer and Employee Benefits Corporation with your new address whenever you **change residence**. This will prevent your card being declined at merchants that use an address verification process. Address changes, if permitted by your employer's HSA administration, can be made online through your online account.

How to Enroll in the HSA

1. **Complete an *Enrollment Form***
2. **Enter General and Personal Information.** Please enter your **email address** to allow us to contact you.

   Please enter your **street address** (a P.O. Box is not accepted) to ensure that your Benefits Card and/or other essential documents arrive promptly. *(U.S. law requires effective identity verification before your account can be opened. Enter your correct street address of residence to ensure your account is opened successfully.)*

   Additionally, please provide your accurate **phone number** so that you can be contacted in the event we need to verify any information on your account.

   *(See **Information on CIP for Employees** section to learn more about these U.S. government requirements.)*
3. **Enter Plan Dates.** Enter the date you start the plan ***(My HSA Effective Date)*** and the number of paychecks per year from which your elections are deducted ***(Number of Pay Periods)***.
4. **Enter My SimplyHSA Benefits.** Enter the amount of ***Pre-Tax HSA Contributions*** you'd like deducted from each paycheck ***(Employee Contribution per Pay Period)***.

   If you receive contributions from your employer, add the ***Employer Contribution Calendar Year Total.***
5. **Authorize Enrollment for HSA Contributions.** First, indicate whether you want to participate in the HSA. Then sign and date the form and return it to your employer.

What Happens After I Enroll?

You will receive welcome communications with important information about your HSA once your account has been established. If you received these communications, congratulations, your account is open!

The amounts you elected on the *Enrollment Form* will be applied to your HSA each payroll.

Communications: The welcome communications share important HSA disclosure information as well as helpful tips for getting the most out of your HSA. You will also see instructions for activating and logging in to your online account.

Any time after your account is open, you may use your online account to see your transactions, make changes to your personal information, and download useful materials about your HSA.

Designate a beneficiary.

Designate a beneficiary as soon as your HSA has been opened. In the event that you pass away, your HSA becomes the property of any beneficiaries you name. Add or update your beneficiaries by logging in to your online account and clicking on the ***View Beneficiaries*** link on your the ***HSA Account Details*** page. You can also download the *HSA Beneficiary Form* via the ***Forms and Documents*** page in your online account.

Authorized User

You may authorize another individual (e.g., spouse) access to your account, with all signing privileges, login to your online account to download and complete an *HSA Authorized User Form* and return it to Employee Benefits Corporation.

Enrollment Process

1	Your **application is submitted** to our banking partner.
2	Your application is reviewed and undergoes an **identity verification.**
3	If additional information is required, you will receive an email request.
4	Once identity verification is complete, your **account is opened!**
5	You will receive welcome communications with a disclosure link and helpful HSA details.

When does my account open?

- To comply with federal law, your account cannot open until the **first day of the month after you enroll in a qualified HDHP** and are otherwise eligible. If you are currently enrolled in a Health Care FSA, please see “SimplyHSA with The BESTflex Plan” for more information. Your account will open within 24 hours of your enrollment being processed. If your qualified HDHP doesn't start on the first day of a month, you will need to wait until the first day of the following month for your HSA to be opened.
- If the first day of a month is the first day you are enrolled in a qualified HDHP, you may open an HSA on that day.
- In most cases your HSA is open as soon as you:
  1. Complete the *SimplyHSA Enrollment Form*,
  2. Pass the Consumer Identity Program (CIP) verification, AND
  3. Fund your HSA.
- For HSAs funded by Archer MSAs or another HSA rolling over, the HSA is open as of the establishment date of the prior account.

Be aware of your HSA establishment date.

Why?
You may begin to incur eligible HSA expenses as of your HSA establishment date (funded date.) Expenses that you incurred before the HSA establishment date are not eligible.

The **HSA establishment date** is the later of:

- The plan effective date (noted on your *Enrollment Form*)
- The date your HSA becomes funded

SimplyHSA with the BESTflex℠ Plan: FSA Rollovers, Runout, and more

Using SimplyHSA with a Health Care Flexible Spending Account (FSA)

There are two kinds of Health Care FSAs: a standard health FSA that can be used to pay for medical, dental, and vision expenses and a limited health FSA that can be used to pay for only dental and vision expenses. Only the limited health FSA is compatible with an HSA in the same plan year.

How having a standard health FSA affects your eligibility to contribute to a Health Savings Account (HSA):
If you or your spouse is enrolled in a standard health FSA under the BESTflex Plan or any other cafeteria plan, you are not eligible to contribute to an HSA per IRS regulations. You would be ineligible to make HSA contributions regardless of whether the FSA is funded by your elections, employer contributions, or funds remaining as the result of a rollover.

You remain ineligible to contribute to an HSA for the remainder of your FSA's plan year, even if you use all of the funds prior to the end of the plan year.

How a standard health FSA with rollover affects your ability to contribute to an HSA

At the end of the plan year, participants with the rollover feature of the standard health FSA may roll over any remaining balance up to the limit set by your employer to reimburse expenses from the new plan year.

This means you may technically still have a standard health FSA, which disqualifies you from contributing to your HSA.

In order for your HSA to be active on the first day of the new plan year, you must meet one of the following criteria:

1. Your actual standard health FSA balance is $0 on the last day of the plan year before your HSA account opens. This means that all card transactions and manual claims are reimbursed from your FSA
2. You are enrolled in a limited health FSA in the new plan year to enable funds to roll over into this account

If you exhaust your prior year standard health FSA funds after the start of the new plan year, but before the deadline to submit prior year claims (your runout period), your HSA can be activated the first day of the month following your runout period.

If you have any funds remaining in your standard health FSA after the runout period ends, you are not eligible to participate in an HSA until at least the following plan year. Check your FSA online account to ensure you spend all rollover dollars before the end of the next plan year to ensure your HSA eligibility.

How a Health Care FSA with a 2 month and 15 day grace period affects your ability to contribute to an HSA

At the end of the plan year, participants with the 2 months and 15 day grace period have the ability to incur expenses for 2 months and 15 days into the new plan year and pay with funds from the prior plan year.

This means you may technically still have a standard health FSA, which disqualifies you from contributing to the HSA until the first of the month following the end of the grace period.

In order for your HSA to be active on the first day of the new plan year your standard health FSA balance needs to be $0 on the last day of the plan year before your HSA opens. This means that all standard health FSA reimbursements must have been processed from your account before the last day of your plan.

How a standard health FSA with only runout affects your ability to contribute to an HSA

The runout period is the period of time after the end of a Health Care FSA plan year (usually 3 months) in which you may submit expenses from the previous plan year. Because the funds cannot be applied to current year expenses, you are eligible for an HSA on the first day of the plan, regardless of your remaining standard health FSA balance.

Limited Health FSA to the Rescue

If you enroll in the HSA, you are eligible to enroll in a limited health FSA. This allows you the convenience to fund those more predictable dental and vision expenses on a plan year basis, and ensure HSA eligibility.

Uniform Coverage Rules

Health Care FSAs (standard health and limited health) are subject to the uniform coverage rule. This means that the full dollar amount of your yearly election is available to you for eligible expenses on the first day of the FSA's plan year.

For HSA-eligible FSAs (limited health FSA or post-deductible FSA) claims made against the FSA are paid up to the new election amount for claims eligible under that FSA.

FAQ: CIP for Employees

Q: What is the Customer Identification Process, or CIP?

A: Any time a new bank account is opened under the USA Patriot Act, the federal government requires verification of the legal identity of the accountholder. CIP is the process used to verify your identity; adding security to an HSA, and protecting your personal information.

Q: How will I know if I pass the CIP?

A: You will receive your welcome communications and Employee Benefits Corporation Benefits Card, indicating that your account has been opened!

Q: What if I don't pass the CIP?

A: You will receive an email from **hsaalerts@wealthcaresaver.com** asking for further documentation. *(The email will arrive at the email address you provided via your online account.)* It is important to take action **immediately**. The email will ask for further documentation and provide instructions for submitting this information:

Q: What types of documents would be requested to verify my identity?

A: The following types of identification may be requested:

1. **Proof of ID**
   - Front and back copies of a **State-issued driver's license** (temporary and paper licenses are not acceptable)
   - Front and back copies of a **State-issued identification card** or non-driver card
   - United States-issued **Passport**
   - Other **government-issued document with a photo**; evidencing nationality or residence
2. **Proof of Social Security Number (SSN)**
   - Front and back color copy of an original **Social Security Card**
3. **Proof of Address**
   - Copy of recent utility bill
   - Copy of current residential lease agreement
   - Copy of current mortgage bill or statement

Q: Can contributions be applied before the CIP process is complete?

A: Contributions can only be applied once the account has been fully opened. *(Please be aware that until the CIP is complete, your account CANNOT be opened or receive deposits.)*

Q: Why would I have a CIP failure now and I didn't in the past?

A: There could be missing or different information in this application than was on a prior application.

Q: I didn't pass the CIP. Why?

A: It was likely one of the following reasons:

- You accidentally misprinted or misspelled your name, address, SSN, or date of birth
- There was an administrative data entry error of your name, address, SSN, or date of birth
- You recently moved to a different residence
- You recently changed your name
- You do not have an extensive credit history or information available through public records

Q: How long does this process take?

A: The process takes approximately **4 to 5 business days** from the date you return the requested information.

You will receive an email within 4 to 5 business days **if you need to provide further documentation.** *(Regular mail takes from 7 to 10 business days.)* You will be sent two additional notices should the bank receive no reply to the first notice with the requested documentation. If no documentation is received within 90 days of the HSA application, the account will be closed and re-enrollment will be required to initiate the process once again.

If your identity is **successfully verified**, you will receive welcome communications indicating that your HSA is open and ready to receive deposits!

Investing with an HSA

How can an HSA help in retirement?

Participation in an HSA allows you to use pre-tax dollars to prepare for retirement. Although your funds can be used to pay for immediate health care expenses tax-free, you can save the money for health care expenses later in life. You can continue to contribute year after year and withdrawals can be made at any point in time. Whether you withdraw the money tomorrow, five years from now, or in retirement, funds used for qualified health care expenses are always tax-free when you save your documentation and itemized receipts.

Here's a simple example.[2]

Contribute $50 per month over 25 years	
Tax Savings:	**$4,148**
HSA Balance:	**$22,356**
Contribute $200 per month over 25 years	
Tax Savings:	**$16,590**
HSA Balance:	**$89,425**
Contribute $6,550 per year over 25 years[3]	
Tax Savings:	**$45,277**
HSA Balance:	**$247,420**

[2] *For illustrative purposes only. Savings calculations are based on a federal tax rate of 15%, state tax rate of 5%, and 7.65% FICA. Balance calculations assume an average interest rate of 3%. Actual results may vary.*

[3] *Assumes a lump sum payment at the beginning of each year.*

Investing for Tomorrow

The HSA allows you to accrue additional funds via tax-free interest from investments, as the HSA matures over time. This characteristic of the HSA is one of the many reasons an HSA is ideal for future-oriented individuals who enjoy seeing return on their investments.[4]

An HSA with Employee Benefits Corporation offers three distinct investment paths:

- **Managed** | Designed for the beginner investor who prefers to have our advisor tool use age and risk profile characteristics to automatically suggest and rebalance investment options on an ongoing basis.
- **Self-Directed** | Designed for the intermediate investor who has the desire to self-select from a menu of monitored investment options covering multiple asset classes.
- **Brokerage** | Designed for experienced investors who desire a direct hands-on approach to preform advanced research and select investment options from hundreds of individual stocks and ETFs.

[4] *Employee Benefits Corporation is unable to provide investment advice. Consult a financial advisor for assistance in making investment choices.*

Terminating Employment

Good news — in the event your employment status changes, your HSA goes with you!

Upon termination from your employer's plan, your HSA will no longer be associated with your employer. Your Benefits Card will be **cancelled** and a **new card will be mailed** to you within 14 business days. You will also receive an email containing a link to information about your account features and applicable fees.

If, after an employment change, you become covered by a health insurance plan or Health Care FSA that is not compatible with an HSA, you can no longer contribute to your HSA. You can continue to use your accumulated funds for qualified medical expenses at any time, allowing you to have further help with out-of-pocket expenses!

Contributions by Spouses

HSA funds may be used to pay for a spouse's eligible health care expenses; however, the account is in the name of just one person. Spouses cannot combine their HSAs into one joint account.

Here are guidelines for married individuals planning HSA contributions with a spouse.

- Participants can **contribute to an HSA** or **enroll in an HSA** only if they are covered by a qualified **HDHP**.
- Participants **cannot contribute to/enroll in an HSA** if they are covered by **non-qualified HDHP** coverage.
- **HSA Contribution Limits** are determined by a participant's qualifying HDHP coverage tier and IRS limits in effect for the year
- **For individuals over 55 years old:** the HSA Catch-Up Contribution applies.
- If one spouse's **family HDHP health coverage** covers the other spouse, that person and their spouse are treated as being covered by a family HDHP with the **family contribution limit**.
- If each spouse has **single HDHP coverage, each spouse** is only allowed to contribute to an HSA within the **single contribution limit** for each spouse, even though they are married.
- If each spouse has **family coverage** under a separate HDHP plan, then the annual family contribution limit applies for the contributions made by both spouses combined.

  - Spouses can split the contribution limit equally,

  OR

  - Spouses can agree on a different combination totaling the annual contribution limit for family contribution.
- When two spouses work for the same employer, each spouse's HSA and HSA contributions are separate.

Spouse Contributions Example 1

One spouse has qualifying HDHP coverage but the other spouse doesn't.
Kelsey's employer offers a qualified HDHP. Kelsey is married to Eduardo. Eduardo's employer offers a health insurance plan that does not meet HDHP eligibility requirements.

Eduardo covers Kelsey under his health insurance family plan.

Q. Is Kelsey eligible to contribute to an HSA?

A. No, Kelsey is not eligible to contribute to an HSA because her insurance coverage is under Eduardo's non-qualified HDHP plan.

Q. How would the family be able to enroll in an HSA?

A. If Eduardo elected single coverage under his non-HDHP plan (or single + children), Kelsey could then enroll in her employer's HDHP health insurance plan with single coverage. This would make her eligible to contribute to an HSA, but she could only contribute the single yearly maximum.

Spouse Contributions Example 2

Q. How much can a married couple contribute to an HSA if each have family coverage under an employer's HDHP?

A. Samuel is 56 years old and Diedra is 52. They are married, and both have family coverage under separate qualified HDHPs. Samuel and Diedra are treated as having family plan coverage and can combine contributions up to the maximum annual HSA contribution limit for a family plan. They have options for making their HSA contributions.

- They may split the maximum family contribution equally. Additionally, Samuel can contribute the catch up contribution amount because he is over 55.
- They can agree to contribute different amounts that do not total more than the maximum family contribution limit plus Samuel's catch up contribution.

Their total annual **contributions cannot exceed** the maximum annual contribution for a family plan plus Samuel's catch up contribution.

The Full-Contribution Rule

Did you become eligible for HSA mid-way through the year by enrolling in a qualified High-Deductible Health Plan (HDHP) part way through the tax year? If so, this special rule may apply to you and affect the amount of HSA contributions you are allowed to make.

Also known as the last-month rule, or the 13 month rule, the full-contribution rule states that individuals who are eligible on the first day of the last month of their tax-paying year can be considered eligible for the entire tax year if they maintain HSA eligibility for the 13 months following (the "testing period").

Under these circumstances, you can contribute up to the full yearly maximum for your coverage type (self or family).

Under this rule, an eligible individual is considered enrolled in the same qualified HDHP coverage as he or she has previously been on the first day of the last month of the year (December 1). For example, if an individual first becomes HSA-eligible on Dec. 1, and has family qualified HDHP coverage, then he or she can be considered an eligible individual having family qualified HDHP coverage for all 12 months of next calendar year.

The full-contribution rule also applies to catch-up contributions made by eligible individuals age 55 and older who are allowed to contribute an additional $1,000 each year.

As long as coverage is maintained Dec. 1 of the current year through Dec. 31 of the following year (the testing period), the full-contribution rule applies regardless of whether the individual was eligible for the entire year, had HDHP coverage for the entire year or had disqualifying non-HDHP coverage for part of the year. If you fail to maintain an HSA-qualified HDHP during the entire testing period, you will have to pay taxes and penalties for making an excess contribution.

- If you have single-only HDHP coverage, you can contribute the entire HSA maximum Single annual contribution amount set for the present year. If you are 55 years of age or older, you can also contribute the entire catch-up contribution of $1,000.
- If you have family HDHP coverage, you can contribute the entire HSA maximum Family annual contribution amount set for the present year (plus the entire catch-up contribution of $1,000 if you are 55 or older.)

Testing Period for Full-Contribution Rule

The testing period goes from the **last month of your tax year** until the **last day of the 12th month following that month**. For instance, December 1st, year 1 – December 31st, year 2.

If contributions were made to your HSA based on your eligibility for the entire year under the full-contribution rule, then you must remain an eligible individual during the entire testing period.

If you do not remain eligible during the testing period you must report as income the contributions made to your HSA that could not have been made apart from the full-contribution rule. You must include this amount in your income for the tax year that you fail to be an eligible individual (See IRS form 8889 Part III). This amount is also subject to an additional 10% tax.

Example: Full-Contribution Rule

Q. What happens when an individual is not eligible for an HSA for the entire testing period?

A. Chris, age 53, has family HDHP coverage as of December 1, year 1, which makes him an HSA-eligible individual. Under the full-contribution rule, he can contribute the family contribution maximum of into his HSA for year 1.

Chris drops his HDHP coverage in June of year 2, making him no longer HSA-eligible. Because he did not remain an eligible individual during the full testing period, the contributions made in year 1 that would not have been made without the full-contribution rule must be reported as part of Chris' income in year 1.

To determine this amount, use the worksheet from IRS Form 8889.