

Health Savings Account (HSA) Eligibility Guidance

To be eligible to enroll in a new HSA, or to continue to contribute to an HSA, an individual would need to meet the following criteria:

- **Participants must be enrolled in an HSA-Qualified High-Deductible Health Plan (HDHP)**
(Deductible limits for HSA-qualified plans are announced annually by the IRS)
- **Participants cannot be covered by any other insurance that reimburses for health expenses unless it is another HSA-Qualified HDHP**
- **Participants cannot be enrolled in Medicare or Medicaid**
- **Participants cannot be eligible to be claimed as a dependent on another person's tax return**
- **Participants must be over 18 years of age**
- **Participants must have a primary U.S. residence as well as a valid Social Security Number**

Important Notes: An individual may only contribute funds into their HSA if they are currently covered by a qualified High-Deductible Health Plan (HDHP) and they meet the above criteria.

If someone has an HSA in place and later becomes ineligible, they would need to pro-rate their annual contribution for the number of months they were eligible within that calendar year.

Once someone becomes ineligible, they can still draw down their HSA balance. If those funds are used for qualified medical expenses, no taxes would apply.

Special Examples Related to HSA Eligibility

Medicare:

Once enrolled in Medicare, an individual can continue to use their HSA funds (they can even pay for Medicare premiums with HSA dollars); however they may no longer contribute to their account. IRS rules state that individuals may contribute into their HSA until the month before they begin Medicare coverage.

Example: If an individual on a single plan from January 1st through December 31st were to go on Medicare in August, they can contribute for 7 months within that calendar year. They would need to calculate the maximum allowable contribution as $\frac{7}{12}$ of the annual IRS limit. (If they wish to contribute a "catch-up" contribution that can be added to the total and pro-rated as well).

FSA/HSA Conflicts:

An employee may not be covered by a current "Health Flexible Spending Account" at the same time they are participating in an HSA. Their FSA must be closed out completely before they may contribute into a new HSA. This only applies for Health FSAs. There is absolutely no conflict for someone to actively fund an HSA when they have one of the following in place:

1. A "limited purpose" FSA (covering vision and dental expenses)
2. A "post-deductible" FSA
3. A combination limited purpose/post-deductible FSA
4. A Dependent-Care FSA

HSA Eligibility Guidance (Cont.)

HSA/FSA Overlap:

Most FSA plans begin and end on a calendar-year basis. Sometimes there is an overlap between an existing FSA plan and a new HSA plan, due to the fact that the insurance renewal can take place anytime during the year. If someone has a Health FSA in place when their new plan begins, they may open their new HSA, but should wait to begin funding the account until the FSA has expired.

FSA Grace Periods:

FSA plans sometimes offer a grace period. If an FSA plan is due to expire on December 31st, often employees would have 2½ months (until March 15th) to fully drain the FSA dollars from their account. When someone is in this situation and they are switching to an HSA plan, they may wish to zero out the FSA balance without taking advantage of the FSA grace period so they can begin funding their HSA more quickly.

Example: Someone with a 1/1/12 renewal enrolls in an HDHP. Their Health FSA grace period runs through March 15th. If they have a zero balance on 12/31/11 in their FSA, they can begin funding their new HSA on 1/1/12. If they hold any money past 12/31/11 in their FSA, they would need to wait until April 1st to begin contributing to their HSA.

In the above example, if someone needs to wait until April 1st to begin using their HSA, they need to take special care with how much they are contributing as they are technically only eligible to contribute ¾ of the maximum contribution limit for the year.

In this scenario, someone can submit the full annual contribution if they meet the HSA “testing period rules” which apply during the first year someone opens their account. Someone who is newly covered by an HSA-Qualified plan by December 1st within any calendar year can fully contribute the annual maximum as if they were eligible for the entire year. They simply need to remain an HSA-eligible individual until the very end of the following calendar year.

Essentially, this means that someone is permitted to make the full annual HSA contribution as long as they intend to renew with another HSA-Qualified plan for their next benefits enrollment period.

Spousal FSA Conflict:

If an employee’s spouse is enrolled in their company’s FSA plan, this could also disqualify the employee from HSA eligibility. This conflict only exists when a Health FSA overlaps with an HSA. Additional details below:

Example: A husband is enrolling in his company’s HDHP and would like to open and begin funding his HSA. If his wife has a Health FSA, he may open his account, but he technically needs to wait to fund his HSA until his wife’s FSA has expired. He can begin funding his HSA if his wife’s FSA meets the following criteria:

1. His wife’s FSA has been set up as an “employee-only” plan and would not allow reimbursement for expenses incurred by anyone other than his wife. (If the employer’s documents don’t specify this, the IRS will assume the money is available for all family members).
2. His wife’s FSA is one of the allowed types that do not create an eligibility problem for an HSA:
 1. A “limited purpose” FSA
 2. A “post-deductible” FSA
 3. A combination limited purpose/post-deductible FSA
 4. A dependent-Care FSA