WELLS FARGO

Health Savings Account (HSA)

Health Savings Accounts and Mid-Year Changes

If you enroll in Medicare, change coverage because of a new job or are simply working for an employer whose benefits renew mid-year — you may need to prorate your HSA contribution limit.

A Wells Fargo Health Savings Account (HSA) is a tax-advantaged account[1] that works in conjunction with an HSA-compatible health plan. The money you contribute to your HSA is tax-deductible and can be used to pay for qualified medical expenses not only for yourself, but also for your spouse and dependents — tax free[1].

You can maximize your tax savings by contributing up to the maximum annual amount allowed by the Internal Revenue Service (IRS).

HSAs have contribution limits[2]

HSAs contribution limits are determined on a calendar/tax year basis. In 2012, the maximum amount the IRS allows you to contribute to your HSA annually is $3,100 if you have individual coverage and $6,250 if you have family coverage. Individuals age 55 and over may also contribute an additional $1,000 per year in catch-up contributions.

IRS rules state that contribution limits must generally be prorated by the number of months you are eligible to participate in an HSA (e.g., enrolled in an HSA-compatible health plan without additional, disqualifying coverage, and meet other eligibility criteria).[3]

Your eligibility can change mid-year for many reasons, such as enrolling in Medicare or adding or dropping HSA-compatible coverage because you started a new job, left a job, or chose a different plan during your employer's open enrollment period.

Calculating contributions to an HSA

If your eligibility does change, you will need to calculate your personal contribution limit. To do so, take the total allowed annual contribution based on your coverage level, multiply it by the number of months in the year you qualify, and then divide the amount by 12. Your eligibility is based on your coverage status on the first day of the month.

- For example, if Henry, who is 35 years old, had single HSA-compatible health plan coverage, changed jobs on July 1 and was no longer eligible to contribute to his HSA, he would calculate his contribution amount as follows:

$3,100 x 6 ÷ 12 = $1,550

This chart shows sample prorated contribution limits

Number of months	Single	Family
12 months	$3,100	$6,250
11 months	$2,842	$5,729
10 months	$2,583	$5,208
9 months	$2,325	$4,688
8 months	$2,067	$4,167
7 months	$1,808	$3,646
6 months	$1,550	$3,125
5 months	$1,292	$2,604
4 months	$1,033	$2,083
3 months	$775	$1,563
2 months	$517	$1,042
1 month	$258	$521

Special exception: "Last-month rule"

If you are an eligible individual on December 1, it is possible to contribute up to the maximum annual limit for that year — even if you did not have eligibility for the full calendar year.

However, the IRS requires that you maintain HSA eligibility through December 31 of the following year (this is referred to as the "testing period").

If you do not remain HSA-eligible through the testing period, income taxes plus a penalty tax likely apply. For more information, please see IRS Publication 969, consult a tax advisor, or both.

Together we'll go far

Switching coverage level mid-year

With life events such as marriage or the birth of a child, you may stay covered by an HSA-compatible health plan but switch from single to family coverage mid-year. If you do so and have family coverage for the full month of December, you may contribute the maximum family contribution for that year as long as you satisfy the last-month rule.

- So for example, if Erika changed coverage from single to family on July 1 — Erika can contribute the full family maximum amount, as long as she has family coverage on December 1 of that year and satisfies the "testing period" for the "last-month rule."

If you change from family coverage to single coverage and have single coverage for the full month of December, you may contribute more than the single maximum contribution but less than the family maximum contribution.

- To calculate the contribution limit, take the number of months with single coverage multiplied by the maximum annual single coverage divided by 12 ($3,100 / 12) plus the number of months with family coverage multiplied by the maximum annual family coverage contribution limit divided by 12 ($6,250 / 12).

  So for example, if Jane changed coverage from family to single on July 1, she would calculate her contribution amount as follows:

  (6 x $258.33) + (6 x $520.83) = $4,675

Changing coverage and the catch-up contribution

Catch-up contributions are also subject to the proration and the last-month rules. In general and unless the last-month rule applies, an individual must be eligible for 12 months to contribute the maximum annual catch-up contribution ($1,000 for 2012). If you are eligible for the catch-up contribution and change coverage or enroll in Medicare, the catch-up contribution amount must be prorated.

To calculate the catch-up contribution limit, take the total available catch-up contribution amount ($1,000), multiply it by the number of qualified months, and then divide the amount by 12.

- So for example, if George turned 65 on July 1 and was no longer eligible to contribute to his HSA, he would calculate his contribute amount as follows: $1,000 x 6 ÷ 12 = $500

Contributed too much?

If you have contributed too much to your HSA, you have until the deadline for filing your tax returns (generally April 15) of the following year to request an excess contribution distribution. For more information and assistance on making this request, please sign on to *Wells Fargo Health Account Manager*[SM] portal or call Wells Fargo HSA Customer Service at 1-866-884-7374, Monday through Friday, from 7:00 a.m. to 8:00 p.m. Central Time.

Questions?

Please contact Wells Fargo HSA Customer Service at 1-866-884-7374, Monday through Friday, from 7:00 a.m. to 8:00 p.m. Central Time, for more information and assistance.

1 Tax references are at the federal level. State taxes may vary. Please consult a tax advisor.

2 This document assumes that the tax year is the calendar year. The rules described in this document may be applied differently if the tax year is not the calendar year (e.g., it is the fiscal year).

3 Your personal contribution limit may be lower than Internal Revenue Code maximums. Individuals are responsible for calculating and monitoring their contribution limits — Wells Fargo does not calculate or monitor your contribution limit. Contact your insurance provider if you have questions on whether your health coverage is HSA-compatible. Other HSA-eligibility criteria apply including: cannot be enrolled in Medicare, cannot be covered in a health plan that is not an HSA-qualifying plan, with limited exceptions, cannot have received VA medical benefits in the past three months, cannot be eligible to be claimed as a dependent on someone else's tax return.

All information provided here is intended as a convenient source of tax information. This information is general in nature, is not complete, and may not apply to your specific situation. Before relying on this information, you should consult your own tax advisor regarding your tax needs. Wells Fargo makes no warranties and is not responsible for your use of this information or for any errors or inaccuracies resulting from your use.

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