2025 HSA COMPLIANCE PLAYBOOK:

CURING COMPLIANCE CONFUSION

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Introduction

Health Savings Accounts (HSAs) are one of the most powerful tax-advantaged benefits tools in 2025. However, with their many advantages come complex compliance requirements. Mistakes, from eligibility nuances to Medicare interactions and contribution calculations, can be common and costly.

This playbook breaks down the most confusing HSA compliance issues facing brokers and employers, offering quick-reference strategies, real-world examples, and best practices. You'll also find answers to our clients' most commonly asked questions, making this a resource you'll want to revisit throughout the year.

HSA ELIGIBILITY:
WHO QUALIFIES?

Core requirement: HDHP enrollment

- An individual must be enrolled in a qualified High Deductible Health Plan (HDHP).
- HDHP alone isn't enough; other disqualifying coverage can nullify eligibility.

Disqualifying coverage includes:

- General-purpose FSAs (even with a $0 balance)
- Non-compatible HRAs
- Medicare (any part)
- TRICARE
- Certain MERPs

Real-World Watchout: Employees who enroll in Medicare Part A when they begin drawing Social Security benefits may lose HSA eligibility without realizing it.

Family coverage complexities

HSA eligibility becomes especially tricky when spouses or dependents have varying coverage types.

Scenario	HSA Eligibility
Both spouses have individual HDHPs	Each can open a separate HSA
One spouse has HDHP, the other TRICARE	Only the HDHP-covered spouse qualifies
One spouse enrolls in Medicare	The other can contribute, using their own HSA
Employee is an employee-only HDHP; spouse has family HDHP with dependents	Both may be eligible for HSAs and catch-up contributions, if the rules are met

HSA + FSA COMPATIBILITY

The conflict

Participation in a general-purpose FSA is incompatible with HSA contributions. This includes:

- Active FSA balances
- Grace periods
- Rollover amounts (even if the employee doesn't re-elect the FSA)

Key timing pitfalls

- **Grace periods:** Employees who use FSA funds after Dec 31, even for prior-year expenses, remain HSA-ineligible until the first of the following month after the grace period ends.
- **Rollover funds:** If general-purpose FSA funds roll over, HSA eligibility is suspended for the following year, even without a new election.
- **Misaligned plan years:** FSA and HDHP plans starting in different months can prevent timely HSA enrollment.

Solutions and strategies

Limited purpose FSAs (LPFSAs):

These FSAs only cover dental/vision and are HSA-compatible.

Zero balance strategy:

Employees who spend down their FSA balance to $0 by year-end may qualify for HSA contributions on Jan 1, even if their FSA has a rollover clause.

Plan design tip:

Employers can automatically convert rollover FSA funds to LPFSAs if their plan allows.

CONTRIBUTIONS:

Limits, proration & catch-up

2025 Limits

HSA eligibility becomes especially tricky when spouses or dependents have varying coverage types.

Coverage Type	Max Contribution
Individual	$4150
Family	$8300
Catch-Up (55+)	+$1000 per person

Core compliance rules

- Total contributions (employee + employer) must remain within IRS limits.
- Catch-up contributions are only allowed when the HSA account holder is 55+ and owns their own HSA.
- Proration is required if HSA eligibility begins or ends mid-year due to coverage or Medicare.

Last-month rule explained

If HDHP coverage begins by December 1, the employee may contribute the full annual maximum. However, they must remain HSA-eligible through the end of the following year (13 months total) or face a penalty.

Example: If an employee enrolls in an HDHP on Dec 1, 2025 and contributes the full $8,300 (family max), they must stay eligible through Dec 31, 2026.

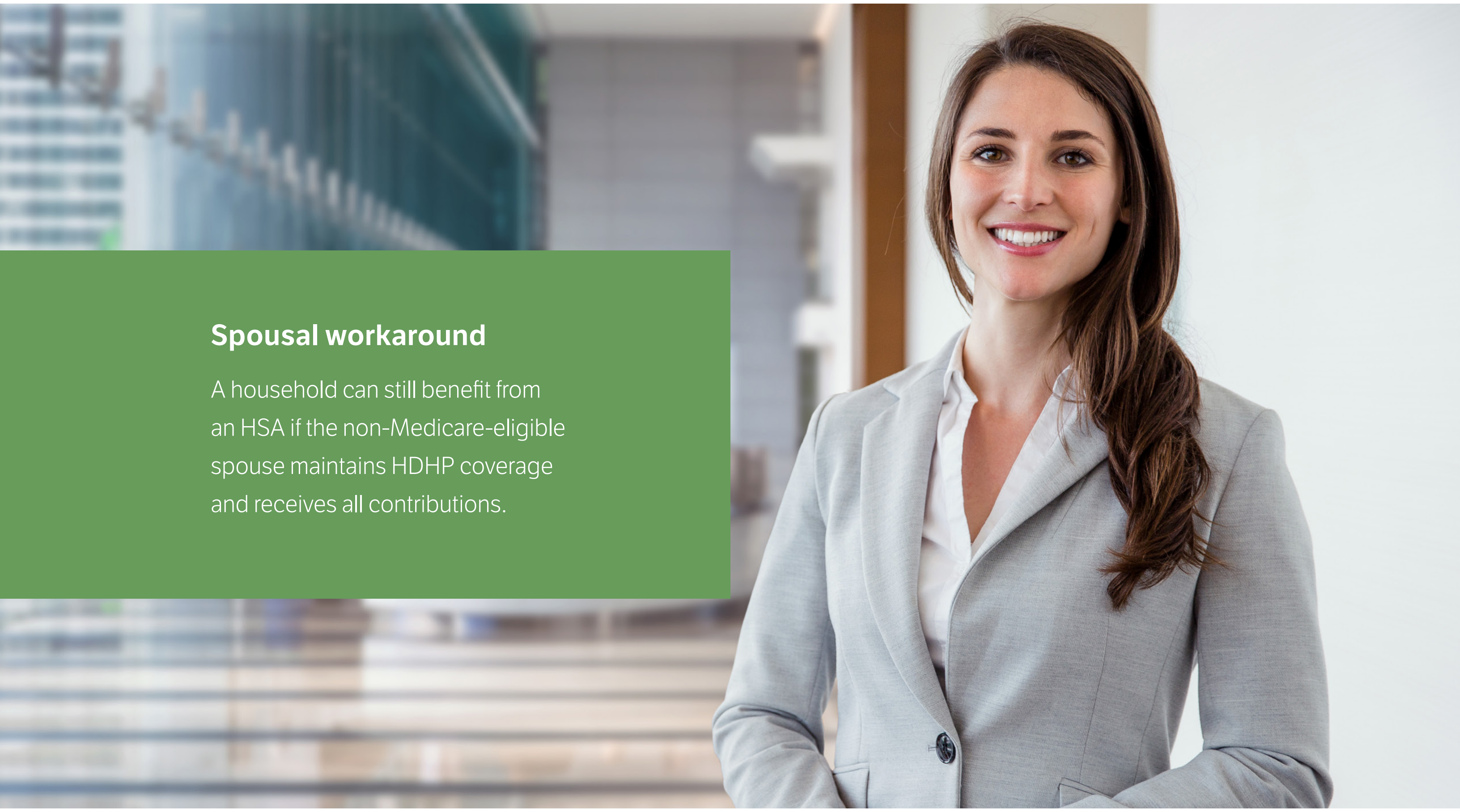
MEDICARE
COMPLICATIONS

Automatic enrollment risks

- Enrolling in Social Security benefits at 65 results in automatic enrollment in Medicare Part A.
- Medicare enrollment is retroactive up to six months. Contributions made during that retroactive window must be withdrawn.

Real-world scenario

If you apply for Part A coverage after turning 65 and more than 6 months after your initial eligibility, Part A coverage can be retroactive for up to six months.



Spousal workaround

A household can still benefit from an HSA if the non-Medicare-eligible spouse maintains HDHP coverage and receives all contributions.

COMMON ADMINISTRATIVE ERRORS

Common pitfalls

- Overcontributions due to dual employer funding or mid-year coverage changes
- Ineligible coverage oversight (like spouse's FSA or Medicare)

Correction process

- Identify the error early
- Work with HSA provider to withdraw excess before tax deadline
- Ensure IRS Form 5498-SA reflects the correction

Penalty Alert: A 6% excise tax applies to the excess annually if not corrected in time.

HSAs AS

Retirement tools

Beyond healthcare

- After age 65, HSA funds can be used for any expense without penalty (just regular income tax if non-medical).
- Qualified medical expenses, including Medicare premiums (Parts A–D), remain tax-free.

Investment capabilities

- Many HSA custodians allow funds to be invested once a threshold (often $1,000–$2,500) is reached.
- Investment options may include mutual funds, ETFs, or interest-bearing accounts.

Tax-free reimbursement strategy

Employees can keep receipts for past qualified expenses and reimburse themselves years later, pulling funds tax-free when needed.

EMPLOYER BEST PRACTICES

Implement regular eligibility reviews

- Check Medicare enrollment and FSA usage before making HSA contributions.
- Proactively address plan design
- Offer LPFSAs and align FSA/HDHP plan years to avoid disqualification traps.

Educate employees at key moments.

- Age 65, marital coverage changes, and open enrollment are critical touchpoints

Create a correction protocol

- Partner with HSA custodians and internal payroll to respond quickly to excess contributions

Promote HSA as a financial tool

- Guide long-term tax savings, investment growth, and retirement planning.

QUICK REFERENCE CHECKLIST

- ☐ Is the employee enrolled in HDHP only?
- ☐ Does the employee have FSA with grace or rollover?
- ☐ Has the employee or spouse enrolled in Medicare?
- ☐ Is the contribution within IRS limits?
- ☐ Is the employee age 55+ with their own HSA?
- ☐ Is the investment threshold met for HSA?

HSA COMPLIANCE FAQ:
What brokers are asking

Can an employee have an HSA if their spouse has an FSA?
Yes, if the employee does not use the spouse's FSA to pay for their own medical expenses.

What if an employee unknowingly contributes after retroactive Medicare enrollment?
Contributions made during the retroactive period may be excess contributions and require correction.

Does employer contribution count toward the HSA limit?
Yes, employer contributions are included in the annual limit.

Can an employee choose an FSA over an HSA even if they have an HDHP?
Yes, if offered by the employer, the employee may opt for an FSA instead.

Do HSA rules apply to dependents covered under family HDHP plans?
Yes. If spouses file jointly, rules extend to dependents.

Can both spouses 55+ contribute a $1,000 catch-up?
Yes, but only if each has their own HSA.

Can an HSA be used as a retirement account?
Absolutely. Unused funds can grow and be used for medical or even non-medical expenses after age 65.

Is there a penalty for non-medical use before age 65?
Yes, a 20% penalty plus income tax applies.

Can someone have a limited-purpose FSA, a rollover, and an HSA?
Yes, that is a compliant arrangement.

Are HSA contributions tracked by calendar year or plan year?
Calendar year.

WRAP-UP

HSAs offer unmatched flexibility-but only when compliance is clear. Avoid costly errors and empower your employees by aligning your benefit design with these best practices.

For custom compliance questions or administrative support, contact

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Based on Clarity's 2025 Webinar: "HSA Headaches? Curing Compliance Confusion"

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