

## **Explanation of Hardship and Supporting Documentation**

**Definition of “Dependent” as defined by Sections 152(c) and 152(d) of the Internal Revenue Code shall mean with respect to a participant:**

**A qualifying child:** An individual who (i) is a child of the participant (or a descendent of such a child), a brother, sister, half-brother, half-sister, stepbrother, or stepsister of the participant or any such descendent of any such relative; (ii) who has not attained age 19 as of the close of the calendar year in which the taxable year of the participant (taxpayer) begins or is a student who has not attained age 24 as of the close of such calendar year; (iii) who has lived with the participant for more than half of the year; (iv) who has not provided more than half of his or her own support; and (v) who is not filing a joint return for the year with a spouse (other than only for a claim for refund). The age requirement in (ii) shall be treated as met in the case of a dependent who is permanently and totally disabled at any time during such calendar year.

**A qualifying relative:** An individual (i) who is (A) a child, stepchild, foster child (or a descendant of a child), brother, sister, half-brother, half-sister, stepbrother, stepsister, father, mother (or ancestor of father or mother), stepfather, stepmother, son or daughter of a brother or sister of the participant, brother or sister of the father or mother of the taxpayer, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law, or any of the above (without regard to whether each individual lived with the participant for more than half the year); or (B) an individual other than a relative mentioned in (A) above, who, for the taxable year of the participant, has the same principal place of the abode as the participant and is a member of the participant's household; (ii) with respect to whom the taxpayer provides over one-half of the individual's support for the calendar year taxable year begins; and (iii) who is not a qualifying child of such participant or of any other taxpayer for any taxable year beginning in the calendar year in which such taxable year begins.

### **I. Medical Care**

A. You may receive a hardship distribution for amounts not covered by insurance for the following medical care expenses permitted under section 213(d) of the Internal Revenue Code:

- Operations/treatment affecting any part of the body (not for surgery solely for cosmetic reasons)
- Obstetrical expenses
- Invitro fertilization
- Vasectomy
- Therapy
- X-ray treatments
- Hospital services
- Nursing services
- Medical services
- Laboratory services
- Surgical services
- Laparoscopic surgery (if deemed medically necessary by a doctor)
- Dental services
- Diagnostic services
- Gastric by-pass surgery (if medically necessary as evidenced by a doctor)
- Healing services
- Prescribed drugs. Forecasting is allowed based on quantity of specified refills, up to

six months. Cost of medication and number of refills must be provided.

- Artificial teeth
- Artificial limbs
- Ambulance Hire
- Lodging (while away from home primarily for and essential to medical care, limited to \$50 per night)
- Transportation for and essential to receipt of medical care
- Hearing aids (cost of hearing aid and batteries to operate device). Forecasting is allowed, for a six month period, in cases where the device is being rented.
- Reconstructive surgery as a result of mastectomy
- Breast reduction (if deemed medically necessary by a doctor)
- Eyeglasses
- Laser eye surgery
- Seeing eye dog
- Wheelchair
- Crutches
- Inclinator
- Capital expenditures, operation and maintenance for permanent improvement or betterment of the property advised by a physician (example, an elevator for an afflicted individual), limited to the difference between the increase in property value due to the improvement and the cost of installing the improvement.
- Qualified long-term care services defined as: necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services, that are required by a chronically ill person as certified by a healthcare practitioner. An individual is "chronically ill" if he/she is as unable to perform at least 2 activities of daily living (e.g., eating, toileting, transferring, bathing, dressing, and continence); or requires substantial supervision to protect the individual's health and safety due to severe cognitive impairment as indicated in writing by a health care professional stating that it is necessary for long term care.
- Costs (tuition, meals and lodging) of attending a school that furnishes special education to help a child to overcome learning disabilities caused by mental or physical impairments. A doctor must recommend that the child attend the school. Overcoming the learning disability must be a principal reason for attending the school, and any ordinary education received must be incidental to the special education provided. Special education includes but is not necessarily limited to:
  - Teaching Braille to a visually impaired person;
  - Teaching lip reading to a hearing-impaired person; or
  - Giving remedial language training to correct a condition caused by a birth defect.
- Medical insurance premiums
- Premium payments under a qualified long-term care insurance contract. The payment of qualified long-term care premiums is limited to the following amounts:

**Age before the close of the Taxable Year the limitation is:**

40 or less	\$ 340
More than 40 but not more than 50	\$ 640
More than 50 but not more than 60	\$1,270
More than 60 but not more than 70	\$3,390
More than 70	\$4,240

**Note:** Each of the above dollar amounts may be increased by the medical care cost adjustment (as prescribed by the Treasury Secretary) each calendar year. Any increase that is not a multiple of 10, shall be rounded to the nearest multiple of 10.

B. You cannot receive a hardship distribution for the following Medical Care expenses:

- Babysitting, childcare and nursing services for a normal, healthy baby
- Contributions to, or expenses that would be covered by, your flexible spending account or health savings account or medical savings account
- Controlled substances (such as marijuana, laetrile, etc.)
- Cosmetic surgery (amount you pay for unnecessary surgery)
- Dancing lessons
- Diaper service
- Electrolysis or hair removal
- Funeral expenses (cannot include in medical expenses amounts you pay for funerals)
- Future medical care (to be provided substantially beyond the end of the year)
- Hair transplant
- Health club dues
- Health coverage tax credit
- Household help (not including nursing-type services)
- Illegal operations and treatments
- Insurance policies providing indemnity against loss of income or for loss of life, limb, sight
- Maternity clothes
- Medicines and drugs from other countries
- Nonprescription drugs and medicines (except insulin)
- Nutritional supplements
- Personal use items (toiletries, cosmetics, or sundry items)
- Swimming lessons
- Teeth whitening
- Veterinary fees
- Weight-loss program

*Please see Internal Revenue Service Publication 502 for additional details regarding what will, and what will not constitute a medical expense that is eligible to be covered by a hardship distribution.*

**C. If you request a hardship distribution for medical expenses, you must have documentation to support your request. If you cannot produce the documentation to substantiate your hardship request, your application will be denied. The following documentation is acceptable:**

1. Some Medical Care expenses are paid for by the insurance company; others are not. For the portion of those Medical Care expenses that the insurance company will not pay (unreimbursed qualifying Medical Care expenses):

- Current bill for service, and
- Explanation of Benefits\* for each bill submitted indicating:
  - Service rendered that qualifies as a Medical Care expense;
  - Date of such service;
  - Amount of coverage paid; and

- Amount currently owed.
- If you cannot produce an Explanation of Benefits, you must obtain a copy from the insurance company. If the company cannot provide a copy, you may submit a copy of the medical history with respect to the service rendered, including any amount paid by the insurance company.

2. Some Medical Care expenses will not be covered at all by the insurance company. For qualifying Medical Care expenses for treatment not covered by the insurance policy:

- A current bill for service that lists the information noted in item #1 above;
- Explanation of Benefits evidencing a denial of coverage; or
- A letter from the insurance company stating that no Explanation of Benefits is available.

3. If prepayment of certain Medical Care expenses is required on or before the time of treatment:

- Estimate of the cost for the procedure from the insurance company and/or medical professional; and
- Letter from the medical professional stating that payment is required either in advance or at the time of the procedure.

An example of this would be where a dentist requires pre-payment for a treatment plan. Generally, you cannot include other medical expenses or current payments for medical care (including medical insurance) to be provided substantially beyond the end of the year. This rule does not apply in situations where the future care is purchased in connection with obtaining lifetime care or long-term care.

4. If Medical Care expenses will be paid in installments:

- Explanation of Benefits evidencing the service rendered and that the lifetime maximum permitted by the insurance company has been reached for the applicable medical expense; and
- A current bill showing the remaining amount to be paid. If the current bill does not show the details of the specific service provided, please also provide the original bill that provides that information.

D. Examples:

1. Past-due medical expenses: Past-due medical expenses may be eligible for hardship treatment if the participant can produce bills for service dating back from the original date of services to the current date that the participant is requesting the hardship. For example, a participant incurs eligible medical care expenses on January 1<sup>st</sup> and has been unable to pay them. On April 1<sup>st</sup> the participant requests a hardship distribution to pay the medical expenses. The participant will be required to produce documentation indicating that the services were rendered and the amount is past due. Past due medical expenses without proof that they are still owed will not be considered an immediate and heavy financial need.

**Note:** A bill shall be considered current if issued within 60 days from the date of the hardship request.

2. Medical Credit Cards: Amounts owed on medical credit cards used to pay eligible medical expenses are eligible for a hardship distribution. The amount of hardship shall be limited to the amount necessary to satisfy payment of the eligible medical expenses charged to the credit card.

**Note:** An Explanation of Benefits must be provided along with a copy of the medical credit card bill.

3. Other Credit Cards: Balances for eligible medical expenses charged to all other credits cards shall NOT be eligible for a hardship distribution.

## **II. Purchase of a Principal Residence**

A. Principal Residence includes:

- Principal Residence
- The purchase of land upon which the principal residence shall be immediately built
- Building a residence with a service contract
- Purchase of a housing cooperative or condominium

B. Principal Residence DOES NOT include:

- Vacation homes
- Rental properties
- Mortgage payments.

**Note:** The property may NOT be a rent-to-own residence or "lease with an option to buy" residence.

C. If you request a hardship distribution for the purchase of a principal residence, you must have documentation to support your request. If you cannot produce the documentation to substantiate your hardship request, your application will be denied. Any one of the following types documentation is acceptable:

1. Good Faith Estimate: Issued by a bank or mortgage company. The Good Faith Estimate must include the estimated total closing costs, any down payments, prepaid expenses and signature, excluding any contributions from the seller. The Good Faith Estimate cannot be issued by a realty company (unless the real estate agent is acting as the lender) and must be prepared and signed within 60 days of the request.

A contract is needed along with the Good Faith Estimate if the requested withdrawal amount is more than the funds necessary to close indicated on the Good Faith Estimate.

2. Contract: Must include a closing date (or, alternatively, written certification from the mortgage company of the closing date); it must be issued no more than 60 days prior to the closing date; it must be signed by you and the seller.

If the property is being financed by the owner, a Good Faith Estimate is not required. A copy of the contract will suffice.

3. Service Contract: Must provide an estimated completion date; and it must be signed by you and the contractor.

4. Purchase of land: For the construction of a principal residence, you must provide Coast Benefits with an executed Contract between you and the seller (which may include dates and amounts of periodic disbursements to the builder), a copy of the construction loan and a commitment letter from a bank or mortgage company.

D. Examples:

1. Purchase of Land for Motor Home/Trailer: The purchase of land for purposes of maintaining a motor home/trailer as the primary residence shall be eligible for a hardship distribution when accompanied by one of the applicable documents noted in Section C above.

2. Rent-to-Own Arrangements: Rental payments or "lease with an option to buy" payments applied towards home ownership shall NOT be considered hardship eligible. However, such payments may qualify for hardship if they are necessary to prevent eviction from principal residence.

3. Building Ones Own Primary Residence: Hardship distributions will NOT be eligible if you are building your own primary residence and are requesting a distribution to purchase materials/services without a service contract.

4. Credit Card Expenses: A hardship distribution will NOT be allowed for expenses that are charged to a credit card.

### **III. Payment of Tuition and Related Educational Fees**

A. You may receive a hardship distribution for the following fees and expenses:

- Tuition
- Related educational fees, including books
- Room and board expenses

A hardship distribution may be permitted to cover expenses related to the current semester or to cover past overdue balances from previous semesters (provided the balance is still outstanding and a current bill is provided). The above bulleted expenses may be forecasted out up to the next 12 months of post-secondary education.

B. The fees and expenses must be incurred by one of the following accredited institutions which must also require a high school diploma or recognized equivalent for admission:

- State-sponsored university
- State-sponsored college
- State-sponsored vocational school
- State-sponsored technical school
- Private university
- Private college
- Private vocational school (examples: tractor trailer, cosmetology, escalator technician)
- Private technical school

C. Tuition and related educational expenses shall not include:

- Non-academic-related expenses
- Courses designed to sell products (ex. real estate courses)
- Random courses that are not part of, or result in completion of, a program that provides a certification or degree.

D. If you request a hardship distribution for tuition and related educational fees, you must have documentation to support your request. Coast Benefits may require that you produce this documentation at any time. If you cannot produce the documentation to substantiate your hardship request, your application will be denied. The following documentation is acceptable:

For initial, ongoing enrollment and summer sessions:

- A current tuition bill listing: the school name, name of the student, total amount currently outstanding (not just the cost of attending the school), the semester or term the charges are for, and whether expenses for room and board are included in the hardship request.
- The tuition bill may also be used to calculate anticipated financial need for the remainder of the academic year.

E. Examples:

1. Off-campus Housing: Off campus housing is eligible for a financial hardship, provided that the housing is affiliated with the educational institution the student is attending. A copy of the rental agreement or lease agreement is required with the student's name or a letter from the landlord stating the student will reside there. If there is more than one leasee it must specify how much each party is responsible to pay. Expenses outside of the lease agreement, such as internet, phone and cable service bills, are not reimbursable.

2. Secondary Education Fees: Preschool, elementary, middle or high school tuition and related educational expenses are not hardship eligible.

3. Credit Card Expenses: A hardship distribution will NOT be allowed for expenses that are charged to a credit card.

#### **IV. Prevention of Eviction or Foreclosure**

A. You may receive a hardship if the distribution is necessary for the following:

- To prevent eviction from the participant's principal residence; or
- To prevent foreclosure on the mortgage on that residence; or
- The amount of the hardship may be in an amount sufficient to bring all payments current as of the date such funds are received.

B. If you request a hardship distribution to prevent eviction or foreclosure, you must have documentation to support your request. If you cannot produce the documentation to substantiate your hardship request, your application will be denied. The following documentation is acceptable:

1. Eviction from the principal residence:
  - Eviction notice issued by the landlord, apartment complex, court, or any other authorized entity which states the amount to be paid to prevent eviction and that such amount is past due.
  - If the eviction notice is issued by an individual rather than a rental organization, you must also supply Coast Benefits with a copy of the lease agreement and a signed statement from the landlord confirming the pending eviction. If there is no written lease agreement involved, a signed statement from the landlord confirming the pending eviction will be required, and such statement must also specify the residential address of the property, the monthly rental amount and that there is no lease agreement.
2. Foreclosure on the principal residence:
  - Notice of foreclosure (stating that proceedings have commenced or will commence either immediately or on a specified date), which must:
    - Be issued by a bank, mortgage company, or other qualified lending institution; and
    - State the amount due to bring the mortgage current; and
    - State that foreclosure proceedings will commence immediately if the amounts owed are not paid.

C. Examples:

1. Eviction from Land: Evicted from the lot upon which your trailer is located and the trailer is your primary residence.
2. Timely Hardship Application: The eviction or foreclosure notice must not be past the eviction/foreclosure date. The eviction deadline must allow time for review and processing — Coast Benefits requires that requests are submitted at least five business days before the eviction date on the notice.
3. Cure of Foreclosure: If foreclosure proceedings have begun, a letter from the mortgage company stating the amount that is required to cure the foreclosure shall be considered to be evidence of an immediate and heavy financial need. A hardship distribution will not be permitted beyond the amount necessary to cure the foreclosure.

If foreclosure or the immediate threat of foreclosure is due to non-payment of property taxes then a hardship distribution will be permitted if the required supporting documentation is provided.

**Note:** If the mortgage is not in the participant's name but the deed is and has the same address or if the mortgage and the deed are in the spouse's name and the address is the participant's address then a hardship distribution will be permitted if the required supporting documentation is provided.

4. Credit Card Expenses: A hardship distribution will NOT be allowed for expenses that are charged to a credit card.

## V. Burial and/or Funeral Expenses

A. You may receive a hardship distribution for the following items:

- Purchase of grave
- Burial fees
- Monument fees (headstone)
- Crematory fees
- Casket
- Casket fittings
- Burial containers
- Urn
- Nameplates
- Memorial plaque
- Book of remembrance
- Memorial cards
- Church fees
- Press notices
- Cemetery fees
- Services for funeral director, staff and overhead
- Hearse and funeral vehicle rentals necessary to transport the deceased (does not include transportation of family members)
- Collection of the body and transference to hospital, funeral home/mortuary or other location
- Preparation of the body
- Embalming
- Memorial service
- Graveside service
- Funeral service

B. You cannot receive a hardship distribution for the following burial and/or funeral expenses:

- Reception
- Flowers
- Donations
- Pre-payment of a (future) funeral
- Transportation (other than the modes of transportation not included in Section A above)

C. If you request a hardship distribution for the payment of funeral or burial expenses, you must have documentation to support your request. If you cannot produce the documentation to substantiate your hardship request, your application will be denied. The following documentation is acceptable:

1. A current bill for burial and/or funeral expenses indicating:
  - Name of the funeral home, mortuary, crematorium, cemetery, monument company and/or religious establishment (church, synagogue, chapel or other place of worship); and
  - Name of the parent, spouse, child or other dependent on whose behalf the services were furnished. If the decedent's name is not included in the bill for service, additionally, the participant must provide a death certificate

indicating the decedent's name. Unless the person is a dependent (as described at the beginning of this document), the following relationships would not qualify for reimbursement: brother or sister in-law, mother or father in-law; and

- List of expenses incurred.

D. Examples:

1. Credit Card Expenses: A hardship distribution will NOT be allowed to pay for burial or funeral expenses that are charged to a credit card.

**VI. Expenses for the Repair of Damage to the Participant's Principal Residence that would Qualify for the Casually Deduction**

A. You may receive a hardship distribution to repair damage to your principal residence that arose from any of the following sudden, unexpected or unusual events:

- Electrical storms
- Tree damage (ex. Limb punctures roof)
- Earthquakes
- Fires
- Floods (such as riverbanks overflowing or floods that impact a community)
- Government-ordered demolition or relocation of a home that is unsafe to use because of a disaster
- Hail
- Landslides
- Mine cave-ins
- Shipwrecks
- Sonic booms
- Hurricanes and tornadoes
- Terrorist attacks
- Vandalism
- Volcanic eruptions
- Disasters occurring in an area subsequently determined by the President of the United States to warrant assistance by the Federal Government

**Note:** Your insurance deductible amount may qualify for a hardship. This list contains examples of casualties that qualify for a hardship, but this list is not all-inclusive of every casualty that may be covered.

B. The following items do not qualify for hardship treatment:

1. Progressive deterioration:
- The steady weakening of a building due to normal wind and weather conditions; or
  - A burst water heater (however, the rust and water damage to rugs and drapes caused by the bursting of a water heater does qualify as a casualty); or
  - Losses caused by droughts
  - Termite or moth damage; or

- The damage or destruction of trees, shrubs and other plants by a fungus, disease, insects, worms or similar pests.

C. If you request a hardship distribution for the repair or construction of your principal residence due to damage caused by a qualifying casualty, you must have documentation to support your request. If you cannot produce the documentation to substantiate your hardship request, your application will be denied. The following documentation is acceptable:

1. For the payment of unreimbursed costs of qualifying casualties to repair a damaged principal residence:

- Bill for services from the contractor. The contractor should state the cause of the casualty and provide a breakdown of the cost on the bill; and/or
- Statement from the insurance carrier evidencing a denial of coverage\* of the cost of repairs.

2. If you are required to prepay certain repairs/construction:

- Estimate from the contractor. The contractor should state the cause of the casualty on the estimate; and/or
- Statement from the insurance carrier evidencing the coverage\* or the denial of coverage of the costs of repair.

3. For the building of a principal residence destroyed by the casualty:

- Executed contract between you and the contractor (which may include dates and amounts of periodic disbursements to the contractor). The contractor should state the cause of the casualty on the contract; and/or
- Statement from the insurance carrier evidencing the coverage or the denial of coverage\* of the cost of construction.

*\*Insurance claims that are denied because the insurance carrier has labeled the loss due to "normal wear and tear" or because it deems the loss to be the result of an incident outside the definition of casualty as defined in Section A above will not qualify as a hardship.*

4. Credit Card Expenses: A hardship distribution will NOT be allowed for expenses that are charged to a credit card.