Advantages of HSAs

Security – Your high deductible insurance and HSA protect you against high or unexpected medical bills.

Affordability – You should be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

Flexibility – You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Savings – You can save the money in your account for future medical expenses and grow your account through investment earnings.

Control – You make all the decisions about:

- How much money to put into the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which company will hold the account
- Whether to invest any of the money in the account
- Which investments to make

Portability – Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state
- Change your marital status

Ownership – Funds remain in the account from year to year, just like an IRA.
There are no "use it or lose it" rules for HSAs.

Tax Savings – An HSA provides you triple tax savings:
(1) tax deductions when you contribute to your account;
(2) tax-free earnings through investment; and,
(3) tax-free withdrawals for qualified medical expenses.

What Happens to My HSA When I Die?

If your spouse becomes the owner of the account, your spouse can use it as if it were their own HSA. If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes).

Opening Your Health Savings Account

Banks, credit unions, insurance companies and other financial institutions are permitted to be trustees or custodians of these accounts. Other financial institutions that handle IRAs or Archer MSAs are also automatically qualified to establish HSAs

Need More Information about HSAs?

Treasury's web site has additional information about Health Savings Accounts, including answers to frequently asked questions, related IRS forms and publications, technical guidance, and links to other helpful web sites. Treasury's HSA website can be found through www.treas.gov (click on "Health Savings Accounts") or directly at the following address: http://www.treas.gov/offices/public-affairs/hsa/.

(11/06)

Health Savings Accounts

A Health Savings Account (HSA) is an account that you can put money into to save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment. HSAs were signed into law by President Bush on December 8, 2003.

Who Can Have an HSA

Any adult can contribute to an HSA if they:

- Have coverage under an HSA-qualified "high deductible health plan" (HDHP)
- Have no other first-dollar medical coverage (other types of insurance like specific injury insurance or accident, disability, dental care, vision care, or long-term care insurance are permitted).
- Are not enrolled in Medicare.
- Cannot be claimed as a dependent on someone else's tax return.

Contributions to your HSA can be made by you, your employer, or both. However, the total contributions are limited annually. If you make a contribution, you can deduct the contributions (even if you do not itemize deductions) when completing your federal income tax return.

Contributions to the account must stop once you are enrolled in Medicare. However, you can keep the money in your account and use it pay for medical expenses tax-free.

High Deductible Health Plans (HDHPs)

You must have coverage under an HSA-qualified "high deductible health plan" (HDHP) to open and contribute to an HSA. Generally, this is health insurance that does not cover first dollar medical expenses. Federal law requires that the health insurance deductible be at least:

$1,100* -- Self-only coverage
$2,200* -- Family coverage

In addition, annual out-of-pocket expenses under the plan (including deductibles, co-pays, and co-insurance) cannot exceed:

$5,500* -- Self-only coverage
$11,000* -- Family coverage

In general, the deductible must apply to all medical expenses (including prescriptions) covered by the plan. However, plans can pay for "preventive care" services on a first-dollar basis (with or without a co-pay). "Preventive care" can include routine pre-natal and well-child care, child and adult immunizations, annual physicals, mammograms, pap smears, etc.

Finding HDHP Coverage

Any company that sells health insurance coverage in your state may offer HDHP policies. Although Treasury cannot recommend any specific names of companies selling these policies, you should be able to find a qualified policy by contacting your current insurance company, an agent or broker licensed to sell health insurance in your state, or your state insurance department.

HSA Contributions

You can make a contribution to your HSA each year that you are eligible. For 2007, you can contribute up to $2,850* if you have Self-only coverage and $5,650* if you have Family coverage

*2007 amounts; adjusted annually for inflation.

The following table illustrates how this works.

	HDHP Deductible	Maximum HSA Deposit (2007)
Single Coverage	$1,100	$2,850
	$1,500	$2,850
	$2,000	$2,850
	$2,500	$2,850
	$3,000	$2,850
Family Coverage	$2,200	$5,650
	$3,000	$5,650
	$4,000	$5,650
	$5,000	$5,650
	$6,000	$5,650

Individuals age 55 and older can also make additional "catch-up" contributions. The maximum annual catch-up contribution is as follows:

2007 - $800
2008 - $900
2009 and after - $1,000

Determining Your Contribution

Your eligibility to contribute to an HSA is determined by the effective date of your HDHP coverage. If you do not have HDHP coverage for the entire year, you will not be able to make the maximum contribution. All contributions (including catch-up contributions) must be pro-rated. Your annual contribution depends on the number of months of HDHP coverage you have during the year (count only the months where you have HDHP coverage on the first day of the month). For years after 2006 a special rule allows you to contribute the maximum amount for the year as long as you have coverage for December. However, if you fail to remain covered for 2008, the extra contribution above the pro rated amount is included in income and subject to an additional 10 percent tax.

Contributions can be made as late as April 15 of the following year.

Using Your HSA

You can use the money in the account to pay for any "qualified medical expense" permitted under federal tax law. This includes most medical care and services, and dental and vision care, and also includes over-the-counter drugs such as aspirin.

You can generally not use the money to pay for medical insurance premiums, except under specific circumstances, including:

- Any health plan coverage while receiving federal or state unemployment benefits.
- COBRA continuation coverage after leaving employment with a company that offers health insurance coverage.
- Qualified long-term care insurance.
- Medicare premiums and out-of-pocket expenses, including deductibles, co-pays, and coinsurance for:
  - Part A (hospital and inpatient services)
  - Part B (physician and outpatient services)
  - Part C (Medicare HMO and PPO plans)
  - Part D (prescription drugs)

You can use the money in the account to pay for medical expenses of yourself, your spouse, or your dependent children. You can pay for expenses of your spouse and dependent children even if they are not covered by your HDHP.

Any amounts used for purposes other than to pay for "qualified medical expenses" are taxable as income and subject to an additional 10% tax penalty. Examples include:

- Medical expenses that are not considered "qualified medical expenses" under federal tax law (e.g., cosmetic surgery).
- Other types of health insurance unless specifically described above.
- Medicare supplement insurance premiums.
- Expenses that are not medical or health-related.

After you turn age 65, the 10% additional tax penalty no longer applies. If you become disabled and/or enroll in Medicare, the account can be used for other purposes without paying the additional 10% penalty.

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THE BASICS OF HSAS

What is a Health Savings Account ("HSA")?

What Is a "High Deductible Health Plan" (HDHP)?

How can I get a Health Savings Account?

How much does an HSA cost?

What is a Health Savings Account ("HSA")?
A Health Savings Account is an alternative to traditional health insurance; it is a savings product that offers a different way for consumers to pay for their health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

You must be covered by a High Deductible Health Plan (HDHP) to be able to take advantage of HSAs. An HDHP generally costs less than what traditional health care coverage costs, so the money that you save on insurance can therefore be put into the Health Savings Account.

You own and you control the money in your HSA. Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You will also decide what types of investments to make with the money in the account in order to make it grow.

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What Is a "High Deductible Health Plan" (HDHP)?
You must have an HDHP if you want to open an HSA. Sometimes referred to as a "catastrophic" health insurance plan, an HDHP is an inexpensive health insurance plan that generally doesn't pay for the first several thousand dollars of health care expenses (i.e., your "deductible") but will generally cover you after that . Of course, your HSA is available to help you pay for the expenses your plan does not cover.

For 2005, in order to qualify to open an HSA, your HDHP minimum deductible must be at least $1,000 (self-only coverage) or $2,000 (family coverage). For 2006, the amounts increase to $1,050 and $2,100, respectively. The annual out-of-pocket (including deductibles and co-pays) for 2005 cannot exceed $5,100 (self-only coverage) or $10,200 (family coverage). For 2006, these amounts increase to $5,250 and $10,500, respectively. HDHPs can have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and co pays & coinsurance) for non-network services.

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How can I get a Health Savings Account?
Consumers can sign up for HSAs with banks, credit unions, insurance companies and other approved companies. Your employer may also set up a plan for employees as well.

How much does an HSA cost?
An HSA is not something you purchase; it's a savings account into which you can deposit money on a tax-preferred basis. The only product you purchase with an HSA is a High Deductible Health Plan, an inexpensive plan that will cover you should your medical expenses exceed the funds you have in your HSA.

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