Health Savings Accounts For Individuals and Families

What is an HSA?

Created in the Medicare Modernization Act of 2003, an HSA is a tax-advantaged health savings account. It is often referred to as a "Health Care IRA." HSAs can be a very effective tool for substantially lowering health insurance premiums. It may also allow you to increase the level of health care benefits you receive on a tax-free basis, and provide a source of retirement income. HSAs are a permanent, federal program effective January 1, 2004.

Who can establish an HSA?

Generally, anyone under 65 not eligible for Medicare, covered by a *qualified high deductible health plan.*

What is a high deductible health plan?

Any health insurance plan with an annual deductible of not less than $1,050 for individual coverage, and $2,100 for family coverage, with a cap on out-of-pocket limits (including deductible) of $5,250 for individuals and $10,500 for families for 2006. Inflation adjustments will apply to these limits in following years. Families must be covered by a *one-deductible plan.*

How does money get contributed to the HSA?

A common misbelief is that the health insurance premium goes into the health savings account. The contribution to the HSA can be seen as one of two checks that is written for health coverage each month. Your premium payment is always that which pays for your major medical coverage over the high deductible. The HSA contribution is a second check which you deposit to cover future medical and health-related expenses that may occur underneath the deductible. Unlike your health insurance premium, unused HSA funds accumulate on a tax-deferred basis, earn interest, and stay in your control.

The HSA contribution is voluntary and made at the discretion of the policy owner. It can be done monthly, periodically, or in one lump sum. There is no requirement to contribute to the savings account, and the payment of the health insurance premium does not put money into the HSA.

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How much money can be contributed to the HSA?

The maximum Health Savings Account contribution is 100% of their health insurance deductible per calendar year up to $2700 for individuals and $5450 for families in 2006. These limits will be adjusted per inflation in following years.

The Health Savings Account contribution is 100% tax-deductible (federal).

Individuals are 55 or older may contribute more to the account each year. In 2006, an additional $700 contribution is allowed, increasing $100 per year, up to $1000 per year in 2009 and thereafter.

Contributions are prorated to the number of months someone is enrolled in the qualified health plan.

What can tax-free HSA funds be used for?

Money can be withdrawn tax-free from the Health Savings Account to pay for expenses under IRS Section 213(d). It includes the following:

- Doctor and Hospital Bills
- Prescriptions and Over-the-Counter Medication
- Vision Care and Eyeglasses
- Dental Care and Braces
- Chiropractic Care and Alternative Medicine
- Psychiatry and Behavioral Health Care
- Hearing Aids
- And more

HSA funds may also be used for Long Term Care Insurance premiums.

Except for COBRA continuation policies, HSA funds may <u>not</u> be used to pay health insurance premiums.

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How do you contribute and withdraw money from your Health Savings Account?

Depending on the administrator/bank of your HSA, you can generally make *contributions* in the following ways:

- Mail in deposit checks directly to the administrator/bank.
- Set up a direct deposit arrangement with another of your financial institutions.
- From a paycheck withdrawal or directly from an employer.

Withdrawals can be made in several different ways:

- Use a check to pay for expenses from the account.
- Use a debit card to pay for expenses from the account.

Does money need to be in the account in order for an expense to be eligible for reimbursement from the HSA?

No, as long as someone is covered by a qualified plan and has their health savings account in place, they may be reimbursed from the account at any time in the future for a qualified expense.

It is recommended that accurate records are kept and receipts are saved for any expenses pay for tax-free out of the health savings account.

What is the penalty for non-qualified withdrawals?

Withdrawals from the Health Savings Account which were not used for qualified expenses are subject to a 10% tax penalty in addition to the proceeds being taxed as income.

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What happens to unused funds?

At the age of 65, unused HSA funds may be drawn from as *retirement income.*

How does a Health Savings Account lower health insurance costs?'

Moving to a high deductible health plan will generally lower health insurance premiums 20-40%. Most of the time the high deductible plan will save more than enough premium dollars to cover the increased exposure. In fact, it is rare when a high deductible health plan does not offer less out-of-pocket cost overall (premium expense plus out-of-pocket risk).

The Health Savings Account simply allows for the saving of tax-deferred dollars for future health care expenses, which may or may not occur. <u>In other words, the risk of having the increased deductible can be eliminated by funding the HSA.</u>

Money is saved by switching to a *high-deductible health plan.* Benefits are restored by funding the HSA.

Often, using the same amount of money previously being spent on health insurance premiums, one can achieve the following benefits by switching to an HSA-style plan:

- 20-40% reduction in premiums
- Out of pocket risk paid from tax-free savings

Contact Brokers Insurance Services for additional information or to obtain a HSA proposal:

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