

1.) Q: What is a Health Saving Account?

Answer: Health Savings Accounts are a new option for health insurance and they have two parts. The first part is a health insurance policy that covers large hospital bills. The second part of the Health Savings Account is an investment account or retirement account from which you can withdraw money tax-free for medical care. Otherwise, the money accumulates with tax-free interest until retirement, when you can withdraw for any purpose and pay normal income taxes.

2.) Q: Who is eligible?

Answer: To be eligible for a Health Savings Account, an individual must be covered by a High Deductible Health Plan (HDHP), must not be covered by other health insurance (does not apply to specific injury insurance and accident, disability, dental care, vision care, long-term care), is not eligible for Medicare, and can't be claimed as a dependent on someone else's tax return.

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

A HDHP is a health insurance plan with a minimum deductible of \$1,050 (self-only coverage) or \$2,100 (family coverage). The annual out-of-pocket (including deductibles and co-pays) cannot exceed \$5,250 (self-only coverage) or \$10,500 (family coverage). HDHPs can have first dollar coverage (no deductible) for preventive care only and higher out-of-pocket (co-pays & coinsurance) for non-network services.

3.) Q: If you are eligible for Medicare, can you make contributions to a Health Saving Account?

Answer: No. Anyone eligible for Medicare, whether working or not, is not eligible to make contributions to a Health Savings Account. If an individual who becomes eligible for Medicare has an account, they may continue to use the money for qualified medical expenses – including Medicare co-pays and deductibles. However, no further contributions may be made to the account.

4.) Q: What is a High Deductible Health Plan (HDHP)?

Answer: A HDHP is a health insurance plan with a minimum deductible of \$1,050 (self-only coverage) or \$2,100 (family coverage). The annual out-of-pocket (including deductibles and co-pays) cannot exceed \$5,250 (self-only coverage) or \$10,500 (family coverage). HDHPs can have first dollar coverage (no deductible) for preventive care only and higher out-of-pocket (co-pays & coinsurance) for non-network services.

5.) Q: What are the contribution limits?

Answer: The maximum annual contribution in 2005 an individual can make to an HSA is \$2,700 or the amount of their deductible – whichever is the lesser. For family coverage, the lesser of \$5,400 or the deductible may be contributed each year. Individuals over the age of 55 may make “catch-up” contributions in the amount of \$700 per year.

These amounts are for the 2006 year and are indexed for inflation and will increase annually.

6.) Q: Will the limits change every year or stay the same?

Answer: The limits are indexed for inflation and cost of living increases. In 2005, contribution limits were \$2,650 and \$5,250 for individuals and families respectively. These limits were increased to \$2,700 and \$5,400 in 2006 and similar increases can be expected. The “catch-up” contribution limits were raised from \$600 in 2005 to \$700 in 2006 and these incremental increases are expected to continue at least until the limit reaches \$1000 in 2009.

7.) Q: Why should I consider a HSA?

Answer: If you or your employer are tired of sending hundreds and hundreds of dollars each month to your health insurance company, and would prefer to keep a big chunk of that money for yourself to spend on health expenses or save it for the future, then you need to look into a Health Savings Account.

The federal government is using tax advantages to encourage people to take more responsibility for their healthcare. Health Savings Accounts are a way to have more control over your healthcare and potentially accumulate large sums of money for retirement.

8.) Q: What are the advantages for an Employer?

Answer: There are several advantages for an employer to implement an HSA. First, the premium savings may be enough to offset total contributions made to the employees' accounts – thus providing an overall savings in healthcare costs. Employers also have a financial advantage in that employee contributions can be made pre-tax, saving the employer FICA taxes.

However, the primary advantage for an employer who implements a HSA plan comes in the raised awareness of employees about their healthcare spending. As people become more responsible for their healthcare dollar, they become more knowledgeable, concerned, and better consumers of healthcare. This consciousness may lead to lower claims, and ultimately huge savings on better renewals in the future.

9.) Q: What are the advantages for an Employee or Individual?

Answer: The advantage for each individual is the capability to pay for qualified medical expenses with tax-free dollars! The individual gains more control over both their healthcare and their finances, while having the opportunity to build up a tax-deferred savings account. With an HSA, instead of the insurance company keeping unused premium dollars, the individual keeps the money they don't use in a given plan year. These accounts can build up to substantial savings over the course of a career.

10.) Q: What other advantages do Health Savings Accounts have over traditional health insurance?

Answer: If you are unemployed or laid off and are collecting unemployment insurance, then you can use funds from your Health Savings Account to pay for your health insurance premium and for your routine health expenses -- all tax-free.

Another advantage is that you can spend tax-free money out of your Health Savings Account for long term care insurance, over the counter drugs, and several other qualified medical expenses.

11.) Q: How much money could build up in an HSA over time for a family?

Answer:

Possible Build-Up of Savings For Families With An HSA Under Different Time and Medical Expense Scenarios				
Account Balance After X Years	Age of Head of Household Starting at 30	Health Savings Account Balances (Assumes a \$4,000 Deductible and Deposit Each Yr.)		
		After Family Medical Expenses of \$1,000 Each Yr	After Family Medical Expenses of \$500 Each Yr	Zero Family Medical Expenses
5 Years	35	\$17,406	\$20,307	\$23,208
10 Years	40	\$39,620	\$46,224	\$52,827
15 Years	45	\$67,972	\$79,301	\$90,630
20 Years	50	\$104,158	\$121,517	\$138,877
25 Years	55	\$150,340	\$175,397	\$200,454
30 Years	60	\$209,282	\$244,163	\$279,043
35 Years	65	\$284,509	\$331,927	\$379,345

12.) Q: How much money could build up in an HSA over time for an individual?

Answer:

Possible Build-Up of Savings For Individuals With An HSA Under Different Time and Medical Expense Scenarios				
Health Savings Account Balances (Assumes a \$2,000 Deductible and Deposit Each Yr.)				
Account Balance After X Years	Age of Head of Household Starting at 25	After Individual Medical Expenses of \$1,000 Each Yr	After Individual Medical Expenses of \$500 Each Yr	Zero Individual Medical Expenses
5 Years	30	\$5,802	\$8,703	\$11,604
10 Years	35	\$13,207	\$19,810	\$26,414
15 Years	40	\$22,657	\$33,986	\$45,315
20 Years	45	\$34,719	\$52,079	\$69,439
25 Years	50	\$50,113	\$75,170	\$100,227
30 Years	55	\$69,761	\$104,641	\$139,522
35 Years	60	\$94,836	\$142,254	\$189,673
40 Years	65	\$126,840	\$190,260	\$253,680

13.) Q: When does the contribution need to be made?

Answer: Contributions can be made at any time in any increments throughout the tax year while an individual is covered by a qualified HDHP. Contributions may be made in lump-sum payments, in monthly installments, and even irregular payments.

14.) Q: If I start a plan in the middle of a calendar year, how much can I contribute to the account?

Answer: If a plan is started in the middle of a calendar year, the maximum contribution would be prorated for the portion of the year that the HDHP was in effect. For example, if an individual with a \$2,000 deductible started a plan April 1st, the maximum contribution would be $\frac{3}{4}$ of \$2,000 - or \$1500. If the person was over 55, $\frac{3}{4}$ of another \$700 catch-up contribution would be allowed – or another \$525.

15.) Q: How long have HSA accounts been available?

Answer: The law became effective January 1, 2004, and was signed into law by President Bush in early December, 2003.

16.) Q: Is there an IRS approved list of medical expenses that I can spend my tax-free Health Savings Accounts funds on?

Answer: Yes, there is list of allowable expenses published by the U.S. Treasury Department, actually the Internal Revenue Service, referred generally as the '213 (d)' list, since it appears in IRS regulation 213 (d). Here is a link to the list of allowable/not allowable expenditures:
<http://www.irs.gov/pub/irs-pdf/p502.pdf>.

In general, you can spend tax-free from your Health Savings Account on all medical, dental (including braces for your children), and vision expenses, chiropractic visits, and even acupuncture, but not on your insurance premium, unless you are unemployed and are collecting Federal unemployment benefits.

17.) Q: Does the maximum out-of-pocket include deductibles?

Answer: Yes, deductibles are included.

18.) Q: Can a co-pay prescription card be offered under a qualified high deductible plan?

Answer: The U.S. Department of the Treasury has recently stated that those with a health insurance plan that is in all other respects HSA compatible, except that it provides prescription drug coverage below the deductible, can have an HSA until 1/1/2006. After that point, co-pay prescription drug cards will not be allowed under HSA qualified plans.

19.) Q: If you purchase a HSA-compatible healthcare plan and you incur expenses that the plan does not cover (i.e. dental, vision, above the “reasonable and customary” schedule), can you pay the expenses out of your HSA account even though they do not go towards meeting the deductible of the health plan?

Answer: Yes. All qualified medical expenses can be paid tax-free out of the account regardless if they are covered under the high-deductible plan.

20.) Q: Can I contribute to this plan up until April 15th of the following year to obtain a deduction for the year in which the plan was held?

Answer: Yes, provided, of course you have HSA qualified insurance, and the maximum deductible amount is pro-rated based on the first full month your high deductible health plan was in place.

21.) Q: Can HSA accumulated funds eventually be used to pay for eldercare or nursing home/retirement facilities?

Answer: Yes, in fact, even before you reach that point you can pay for long term care insurance premiums with tax-free money out of your Health Savings Account.

22.) Q: How does the tax treatment of HSA contributions work for an employee on an employer-sponsored plan vs. an individual who sets up his or her own HSA plan?

Answer: The tax implications for an individual vs. an employee are very similar. Contributions are tax free to individuals through an above the line deduction. The contributions are pre-tax for an employer or employee in an employer provided plan. Both types of plans will allow for tax-deductible contributions, tax-deferred growth, and tax-free payment of qualified medical expenses.

23.) Q: Is there a list of over the counter drugs that are always, sometimes, or never allowed under an HSA?

Answer: You can purchase all over the counter drugs at anytime with tax-free dollars from an HSA account.

24.) Q: Will I pay tax penalties on the monthly fees my HSA custodian deducts from my account? (These aren't qualified medical expenses?)

Answer: The IRS has ruled that nominal bank and custodial fees withdrawn directly from the account are allowable withdrawals, and therefore, are not subject to taxes or penalties. Some trustees allow their HSA clients to choose their method of payment for custodial fees, with either a monthly debit from the account or by a check paid annually.

25.) Q: Can I use my Health Savings Account for non-medical expenses?

Answer: The answer is, yes, you can spend money out of your Health Savings Account for non-medical expenses (absolutely anything), but you have to pay income tax and a 10% penalty for a non-medical withdrawal prior to age 59 ½. After 59 ½, money can be spent out of the account for non-medical expenses and only income taxes must be paid on the money.

26.) Q: What if I die, what happens to the money in my Health Savings Account?

Answer: The HSA goes to your named beneficiary. If you designate your spouse, the money is tax-free. If your beneficiary is someone else, he or she generally will owe income tax but no penalty.

27.) Q: How does a family deductible differ in an HSA account from a traditional plan?

Answer: In an HSA plan, there are no individual deductibles within the family deductible. Deductible amounts are aggregate without regard to which family member or members incur expenses. No benefits are paid unless the family has incurred the full deductible amount.

28.) Q: When employers make contributions to their employee accounts, what nondiscrimination rules are applicable?

Answer: Contributions must be “comparable” (either the same amount or same percentage of deductible) for all employees with the same coverage category – single/family. A separate test for part-time employees is allowed (part-time is typically considered under 30 hours). There is a penalty of 35% of employer contributions if these tests are not met.

29.) Q: What accountability is required for how the money in the HSA is spent? For example, if I spend \$500 on prescriptions using my American Express card, can I then reimburse myself from the HSA?

Answer: The administrator is not responsible for what someone with an HSA spends the funds on; the HSA holder is the one responsible. Neither the employer nor the trustee is responsible for how funds are used; only the account holder is responsible for funds. Individuals may reimburse themselves for qualified medical expenses paid for during the time of coverage under the HSA compatible plan.