

# Health Savings Account (HSA)



## An Introduction to Your HSA

### What is an HSA?

A Health Savings Account (HSA) is a tax-advantaged, portable, individually owned bank account. Accountholders can use an HSA to pay for medical expenses for themselves and immediate family members and receive unique tax benefits.

Coverage by an HSA-qualified insurance plan is required to establish and contribute to an HSA.

### What is an HSA-qualified insurance plan?

An HSA-qualified insurance plan is also known as a "High Deductible Health Plan" or "HDHP." This kind of insurance plan features lower monthly premium costs and a higher deductible than that of traditional insurance plans. The IRS establishes requirements for HSA-qualified health plans. For 2007, these requirements are:

- **Minimum Deductibles:** \$1,100 for self-only \$2,200 for family
- **Maximum Out-of-Pocket:** \$5,500 for self-only \$11,000 for family

### Who can establish an HSA?

Any individual that:

- Is covered by an HSA-qualified high deductible health plan
- Is not covered by other health insurance
- Is not entitled to Medicare
- Can't be claimed as a dependent on someone else's tax return

### What are the tax advantages of using an HSA?

An HSA features three separate tax benefits, making it one of the very best savings vehicles available.

- All contributions to an HSA are tax-free.
- Any interest or earnings made by funds within an HSA are tax-free.
- HSA money spent on eligible healthcare expenses remain tax-free.

Your tax savings depends on your individual situation. As a rule of thumb, you can assume a tax savings of roughly 15% on every dollar contributed to an HSA.

### How much can I contribute to an HSA?

The IRS sets a Maximum Contribution Limit for HSAs. For 2007 these limits are:

- \$2,850 for self-only
- \$5,650 for family

Catch-up contributions are also available for individuals age 55+. For 2007, the maximum catch-up contribution is \$800.

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## How are contributions made to an HSA?

HSA contributions can be made by the yourself or your employer. You can submit money via payroll deductions, if allowed by your employer. Money submitted via payroll deduction has the unique benefit of being made before FICA taxes are calculated, allowing for another 7.65% tax savings.

## What can HSA dollars be used for?

When HSA funds are spent on qualified medical expenses (as defined by the IRS), they remain tax-free. These expenses include:

- Doctor visits
- Specialist Visits
- Hospital visits
- Lab and Test Fees
- Over-the-counter medications
- Prescription medications
- Vision care expenses
- Dental expenses
- Much more

Qualified medical expenses must be incurred on or after the HSA was established.

## What if I use my HSA dollars for non-qualified expenses?

If HSA dollars are spent on a non-qualified expense, the amount will be taxed as ordinary income and will be assessed an additional 10% penalty fee. Therefore, its always best to use HSA dollars for eligible expenses.

However, after age 65, HSA funds spent on non-qualified expenses will NOT be subject to the 10% penalty fee, and qualified expenses will remain tax-free. This rule makes the HSA an outstanding account to use in planning retirement.

## Who owns the HSA account?

HSAs are owned completely by you, the individual—not your employer—regardless of who put the money into the account.

All accounts are fully portable and unused amounts rollover annually. All amounts are fully vested, and accounts can grow through simple interest or investment earnings (depending on the options provided by your HSA custodian).