



Health Savings Accounts

Health savings accounts are designed to allow individuals to save for current and post-retirement qualified medical expenses on a tax-free basis. Any eligible individual who is covered by a high deductible health plan (HDHP) can establish and contribute to an HSA. Contributions are tax-deductible if made by an individual, or excluded from income if paid by an employer. Earnings in HSAs are not taxable, and distributions are not included in income if used to pay qualified medical expenses. Unused amounts remain in the account available for use in later years. Amounts contributed to an HSA belong to the individual, so continue to be available to an individual that changes employers or leaves the work force.

Health savings accounts are set up with a financial institution (such as a bank or an insurance company). No permission or authorization from the IRS is necessary to establish an HSA.

Eligible Individuals

To qualify for an HSA, an individual must meet the following requirements.

- § Must be covered under an HDHP.
- § May not be covered under any other non-HDHP health plan.
- § May not be entitled to Medicare benefits.
- § Cannot be claimed as a dependent on another person's income tax return.

Any eligible individual may contribute to an HSA. Unlike an IRA, there are no restrictions on income when determining deductibility of HSA contributions.

HSA Contributions

Contributions for the tax year must be made in cash or through a cafeteria plan. The contributions can be made in one or more payments but can not be made before the beginning of the tax year and must be made by the return due date (without extensions) for the tax year. The employee, the employer or both may contribute to the HSA. Contributions made by the employee are deductible from Adjusted Gross Income (AGI). Contributions made by the employer (including contributions made through a cafeteria plan) are excluded from income and are not subject to employment taxes.

Contribution Limits

Contributions are generally limited to the lesser of the HDHP annual deductible, or the following:

Type of Coverage	Under Age 55		Age 55 or older Catch-Up Additional Amount	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Individual	\$3,050	\$3,050	\$1,000	\$1,000
Family	\$6,150	\$6,150	\$1,000*	\$1,000*

*Per qualifying spouse

HEALTH SAVINGS ACCOUNTS (CONT'D)

High Deductible Health Plans

Generally, a HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses.

Individuals covered by Flexible Spending Arrangements (FSAs) and Health Reimbursement Arrangements (HRAs) are generally ineligible to contribute to HSAs because such arrangements are not considered high-deductible plans (HDHPs). However, under the new law employees with a health flexible spending account (FSA) or a health reimbursement account (HRA) will be allowed to make a one-time transfer of the balance in their FSA or HRA to an HSA.

Type of Coverage	Minimum Annual Deductible		Maximum Annual Deductible and Out-of-Pocket Expenses (other than for Premiums)	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Individual	\$1,200	\$1,200	\$ 5,950	\$ 5,950
Family	\$2,400	\$2,400	\$11,900	\$11,900

Distributions

Individuals do not have to make withdrawals from an HSA each year. Contributions (and earnings) can remain in the account from year to year until the individual requests a distribution. Distributions may be made at any time and are not taxable if used to pay qualified medical expenses of the account beneficiary, his or her spouse, or his or her dependent. Distributions not used for qualified medical expenses are included in gross income and subject to a 10% penalty.

It appears the new Health Savings Accounts will work best for the healthy, younger person or family, who currently does not incur large medical expenses. They will be able to fund an HSA for use in later years, when their medical bills will probably be greater and at the same time reduce current year outlay for medical insurance costs. Health Savings Accounts may also be very attractive to small employers who are looking to control the exponential rise in insurance premiums for their employees.