

# Health Savings Accounts

## An Overview

### Health Savings Accounts

A health savings account (HSA) is an account funded to help you save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment.

### Who Can Have an HSA?

Any adult can have an HSA if you:

- Have coverage under an HSA-qualified high-deductible health plan (QHDHP)
- Have no other first-dollar medical coverage (other types of insurance, such as specific injury or accident, disability, dental care, vision care, or long-term care, 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 still use your HSA funds to pay for medical expenses tax-free.

### QHDHPs

You must have coverage under an HSA-qualified high-deductible health plan (QHDHP) to open and contribute to an HSA. The AMHIC plan has the following deductibles for 2012:

|                          |         |
|--------------------------|---------|
| Individual coverage:     | \$1,500 |
| Individual + 1 coverage: | \$3,000 |
| Family coverage:         | \$3,000 |

In addition, 2012 maximum annual out-of-pocket expenses under the plan are as follows:

|               | In-Network | Out-of-Network |
|---------------|------------|----------------|
| Indiv. cvg:   | \$2,000    | \$3,000        |
| Indiv +1 cvg: | \$4,000    | \$5,000        |
| Family cvg:   | \$6,000    | \$7,000        |

This amount is in addition to the deductible.

In general, the deductible applies to all medical expenses (including prescriptions) covered by the plan. However, the AMHIC QHDHP pays for all In-Network preventative care services. Preventive care can include routine prenatal and well-child care, child and adult immunizations, annual physicals, mammograms and more. A

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full list of preventative care services can be found at [www.healthcare.gov](http://www.healthcare.gov).

### HSA Contributions

You can make a contribution to your HSA each year that you are eligible. You can contribute no more than (2012 limits):

- Individual coverage: \$3,100
- Family coverage: \$6,250

Individuals ages 55 and older can also make additional “catch-up” contributions of up to \$1,000 annually.

### Determining Your Contribution

Your eligibility to contribute to an HSA is determined by the effective date of your QHDHP coverage. Individuals who are eligible to contribute to an HSA in the last month of the taxable year are allowed to contribute an amount equal to the annual HSA contribution limit provided he/she remains covered by the QHDHP for at least the 12-month period following that year. Contributions can be made as late as April 15 of the following year.

### Using Your HSA

You can use the money in your HSA to pay for any qualified medical expense permitted under federal tax law. This includes most medical care and services, dental and vision care.

Generally, you cannot use your HSA to pay for medical insurance premiums, except in specific instances, 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, copays 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 your HSA to pay for medical expenses for yourself, your spouse or your tax dependents, even if your dependents are not covered by

your QHDHP. If your domestic partner meets the IRS qualifications to be considered a tax dependent, you can legally use your HSA funds for his or her medical expenses. If he/she does not meet this qualification, you cannot. Any amounts used for purposes other than to pay for qualified medical expenses are taxable as income and subject to an additional 20 percent penalty. Examples include:

- Medical procedures and expenses not considered qualified under federal tax law
- Over-the-counter drugs and medications (except insulin)
- Other types of health insurance unless specifically described above
- Medicare supplemental insurance premiums
- Expenses not health-related.

After you turn 65, the 20 percent 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 penalty, but it will be taxed as income.

### A Good Candidate

A good candidate would be someone who:

- *Is in good health* – You and your covered dependents are basically in good health, free of chronic conditions and generally only visit a doctor a few times a year.
- *Is an active decision maker* – You will be responsible for managing the funds in your HSA, so you should be comfortable researching and understanding your investment options and associated fees. You should also be comfortable using online tools to price and estimate your future medical expenses.
- *Is a good record keeper* – You will need to maintain records of your claims and qualified medical expenses.

- *Is good at budgeting and is not averse to risk* – High deductibles and out-of-pocket maximums mean you will have more financial exposure during the year. This can be offset by potential benefits of accumulating tax free money in your HSA. Market volatility can impact HSA funds if you choose to invest them.
- *Understands coinsurance pharmacy plan design* – Prescriptions are subject to the medical deductible until the deductible is met. Once the deductible is met, prescriptions are covered at the coinsurance amount. Prescription drugs count towards the out-of-pocket maximum and are covered 100% once the maximum is met.

### Advantages of HSAs

*Security* – Your HSA can provide a buffer for unexpected medical bills.

*Affordability* – In most cases, you can lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

*Flexibility* – You can use your HSA to pay for current medical expenses, including expenses that your insurance may not cover, or save your funds 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 HSA for future medical expenses and grow your account through investment earnings.

*Control* – You make the decisions regarding:

- How much money you will put in the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from 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
3. Tax-free withdrawals for qualified medical expenses

### What Happens to My HSA When I Die?

- If you are married, your spouse becomes the owner of the account and can use it as if it were his or her 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).