Advantages of HSAs

Security – Your high deductible insurance and HSA protect you against high or unexpected medical bills.

Affordability – You should be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

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

Control – You make all the decisions about:

- How much money to put into the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which company will hold 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; and, (3) tax-free withdrawals for qualified medical expenses.

What Happens to My HSA When I Die?

If your spouse becomes the owner of the account, your spouse can use it as if it were their 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).

Opening Your Health Savings Account

Banks, credit unions, insurance companies and other financial institutions are permitted to be trustees or custodians of these accounts. Other financial institutions that handle IRAs or Archer MSAs are also automatically qualified to establish HSAs

Need More Information about HSAs?

Treasury's web site has additional information about Health Savings Accounts, including answers to frequently asked questions, related IRS forms and publications, technical guidance, and links to other helpful web sites. Treasury's HSA website can be found through www.treas.gov (click on "Health Savings Accounts") or directly at the following address: http://www.treas.gov/offices/public-affairs/hsa/.

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Health Savings Accounts

A Health Savings Account (HSA) is an account that you can put money into to save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment. HSAs were signed into law by President Bush on December 8, 2003.

Who Can Have an HSA

Any adult can contribute to an HSA if they:

- Have coverage under an HSA-qualified "high deductible health plan" (HDHP)
- Have no other first-dollar medical coverage (other types of insurance like specific injury insurance or accident, disability, dental care, vision care, or long-term care insurance 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 keep the money in your account and use it pay for medical expenses tax-free.

High Deductible Health Plans (HDHPs)

You must have coverage under an HSA-qualified "high deductible health plan" (HDHP) to open and contribute to an HSA. Generally, this is health insurance that does not cover first dollar medical expenses. Federal law requires that the health insurance deductible be at least:

$1,200* -- Self-only coverage
$2,400* -- Family coverage

In addition, annual out-of-pocket expenses under the plan (including deductibles, co-pays, and co-insurance) cannot exceed:

$5,950* -- Self-only coverage
$11,900* -- Family coverage

In general, the deductible must apply to all medical expenses (including prescriptions) covered by the plan. However, plans can pay for "preventive care" services on a first-dollar basis (with or without a co-pay). "Preventive care" can include routine pre-natal and well-child care, child and adult immunizations, annual physicals, mammograms, pap smears, etc.

Finding HDHP Coverage

Any company that sells health insurance coverage in your state may offer HDHP policies. Although Treasury cannot recommend any specific names of companies selling these policies, you should be able to find a qualified policy by contacting your current insurance company, an agent or broker licensed to sell health insurance in your state, or your state insurance department.

HSA Contributions

You can make a contribution to your HSA each year that you are eligible. For 2010, you can contribute up to $3,050* if you have Self-only coverage and $6,150* if you have Family coverage

*2010 amounts; adjusted annually for inflation.

Catch-Up Contributions

Individuals age 55 and older can also make additional "catch-up" contributions. The maximum annual catch-up contribution is as follows:

2009 and after - $1,000

Determining Your Contribution

Your eligibility to contribute to an HSA for each month is generally determined by the whether you have HDHP coverage on the first day of the month. Your maximum contribution for the year is the greater of: (1) *the full contribution*, or (2) *the pro rated amount*. The full contribution is the maximum annual contribution for the type of coverage you have on December 1. The pro rated amount is 1/12 of the maximum annual contribution for the type of HDHP coverage you have times the number of months you have that type of coverage. If your contribution is greater than the pro rated amount, and you fail to remain covered by an HDHP for the entire following year, the extra contribution above the pro rated amount is included in income and subject to an additional 10 percent tax.

Examples: If you first have family HDHP coverage on July 1, 2010, and keep HDHP coverage through December 31, 2010, you are allowed the full $6,150 family contribution to an HSA for 2010. If you fail to remain covered by an HDHP for all of 2010, $3,075 would be included income and subject to an additional 10 percent tax.

If you have family HDHP coverage from January 1, 2010 until June 30, 2010, then cease having HDHP coverage, you are allowed an HSA contribution of 6/12 of $6,150, or $3,075 for 2010.

If you have family HDHP coverage from January 1 2010 until June 30, 2010, and have self-only HDHP coverage from July 1, 2010 to December 31, 2010, you are allowed an HSA contribution of 6/12 x $6,150 plus 6/12 of $3,050, or $4,600 for 2010.

Contributions can be made as late as April 15 of the following year.

Using Your HSA

You can use the money in the account to pay for any "qualified medical expense" permitted under federal tax law. This includes most medical care and services, and dental and vision care, and also includes over-the-counter drugs such as aspirin.

You can generally not use the money to pay for medical insurance premiums, except under specific circumstances, 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, co-pays, 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 the money in the account to pay for medical expenses of yourself, your spouse, or your dependent children. You can pay for expenses of your spouse and dependent children even if they are not covered by your HDHP.

Any amounts used for purposes other than to pay for "qualified medical expenses" are taxable as income and subject to an additional 10% tax penalty. Examples include:

- Medical expenses that are not considered "qualified medical expenses" under federal tax law (e.g., cosmetic surgery).
- Other types of health insurance unless specifically described above.
- Medicare supplement insurance premiums.
- Expenses that are not medical or health-related.

After you turn age 65, the 10% 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 10% penalty.