



## **What Consumers Need to Know about Health Savings Accounts**

### **What are HSAs?**

HSAs are health care savings accounts established by individual consumers. Before setting up an HSA, you must be enrolled in an insurance policy that has a high-deductible. Individuals can get a small tax advantage if they make a contribution to their HSA account. The funds in HSA accounts can be used for copayments, deductibles, and certain medical expenses not covered by the high-deductible health plan. The amount you'll save on your federal taxes for using a high-deductible plan with an HSA will depend on your income, your tax liability, and how much you (not your employer) contribute to the HSA account. For many people, an HSA will provide little or no tax break.

### **Who can buy an HSA?**

An individual under the age of 65 who purchases a "qualified" high-deductible health plan (a plan that meets federal guidelines) can open an HSA. The high-deductible plan must have a deductible of *at least* \$1,000 for an individual or \$2,000 for a family.

### **What is the maximum amount I can contribute annually to an HSA?**

For 2005, the combined deposit that can be made by an individual and his or her employer *cannot exceed the amount of the plan deductible*, up to a maximum amount of \$2,650. The contribution for family coverage can be up to \$5,250 during 2005. If you are 55 years of age or older, you can contribute an additional \$600 in 2005 and \$700 in 2006.

### **How much will the premium be for my high-deductible health plan?**

If you are enrolling through an employer, you will generally be required to pay part of the premium for the plan. You should ask your employer how much you will have to pay and how often. If you are purchasing a plan on your own, you will be required to pay the entire premium. You may not use HSA funds to reimburse yourself for any portion of the premium payment.

### **Can I purchase additional coverage?**

In addition to a high-deductible health plan, you can maintain or purchase additional disability, dental, vision, and long-term care insurance policies.

### **Are withdrawals from HSAs tax-free?**

If you are over the age of 65, all withdrawals—whether they are for medical expenses or not—are tax-free. The rules are different if you are under 65. For those under 65, withdrawals from HSAs that are used to pay out-of-pocket health care expenses are tax-free. However, withdrawals made for non-medical purposes are subject to income tax and a 10 percent penalty.

### **Can I carry my HSA with me from year to year? From employer to employer?**

Funds in an HSA can be accumulated from year to year. HSA funds are portable, meaning that employees can take them with them when they change or leave jobs.

# Is an HSA Right for You?

## Issues to consider and questions to ask

HSAs have significant limitations: You must be covered by a federally approved high-deductible health plan. You *may not* be covered by any other comprehensive health plan (including Medicare) that is not a qualifying high-deductible plan. You may not be claimed as a dependent on any other person's tax return. Finally, HSA funds cannot be used to pay health insurance premiums.

### **How much will my employer contribute to my HSA?**

If you are enrolled in your high-deductible health plan through your employer, your employer does not have to pay anything into your account. If your employer does not contribute, or if your employer contributes only a small amount, when you seek care, you must pay all health care costs from your HSA or out of your own pocket until you have spent the amount of your deductible and insurance coverage begins.

Note that you cannot assume that all health care spending will "count" toward your deductible. Some health care expenses may not count, so you may need to spend more than your deductible amount before your insurance coverage begins. The rules about what you can use your HSA dollars for and the rules about what counts toward a deductible will vary from plan to plan.

### **What if my medical expenses exceed the amount in my HSA?**

Depending on what your plan covers, the size of the deductible, and your plan's limit on out-of-pocket costs, you could be left with significant unreimbursed health care costs. You will need to manage your funds and understand the associated tax issues, which can be complex and burdensome.

### **What about medical expenses that are not covered by my plan? Do they count toward my deductible or my plan's limit on out-of-pocket costs?**

No. Non-covered or excluded benefits usually do not count toward your deductible or your plan's limit on out-of-pocket costs. Also, services and doctors' visits that cost more than your plan allows will not count toward your deductible or your plan's limit on out-of-pocket costs. Again, you may be able to use your HSA dollars to pay for some of these expenses, but that does not automatically mean that those dollars spent will count toward your deductible.

### **What if I go out of network for medical services?**

If you seek services from an out-of-network provider, you may have to pay more than you pay for in-network services. Depending on your plan, this additional amount may not count toward your deductible or your plan's limit on out-of-pocket costs. You may want to find out if you can get the cheaper in-network rates for services when you spend your HSA dollars at out-of-network providers.

### **What about preventive services?**

Check to find out if your plan covers preventive services and if you need to exhaust your deductible before your plan will pay for them. Preventive services include physical exams, immunizations, screening, weight loss programs, and programs to help enrollees quit smoking. The federal rules governing HSAs that qualify for tax advantages allow the high-deductible insurance plans linked to HSAs to cover many preventive services, including some prescription drugs, before enrollees have met the deductible for other covered services.



## State Legislator Program