

# Health Savings Accounts

Prepared for:  
Presented by: **Erika James, LUTCF**  
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## What Is a Health Savings Account?

**A Health Savings Account (HSA) is a tax-advantaged personal savings account designed to provide funds to pay qualified medical expenses, including health insurance deductibles and co-payments.** An HSA is available to eligible individuals only in conjunction with a high-deductible health plan provided by an employer or purchased by an individual.

The tax benefits of an HSA are significant. **Your contributions to a Health Savings Account are tax deductible on an "above the line" basis,** resulting in a dollar-for-dollar reduction in adjusted gross income. What might this mean to you? For example:

<b>Annual HSA Contribution</b>	<b>\$3,000</b>
Marginal Federal Income Tax Rate	25%
Tax Savings per Year	\$750
<b>Net Cost to You</b>	<b>\$2,250</b>

**If your employer contributes to your HSA, those contributions are not taxable income to you** and are not subject to withholding.

**Funds in an HSA can be invested, with earnings not subject to income tax** so long as they remain in the HSA.

**Distributions from an HSA may be made at any time.** If used to pay for qualified medical expenses, the distributions are not subject to federal income tax. If used for non-medical expenses, HSA distributions are considered taxable income to you and are subject to a 10% penalty tax if you are under age 65 when the distribution is taken.

## Health Savings Account Eligibility (2010)

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### Who is eligible to establish an HSA?

A Health Savings Account can be established by an "eligible individual"...someone who:

- is covered under a qualified high-deductible health plan;
- is not also covered by any other health plan that is not a high-deductible health plan;
- is not entitled to benefits under Medicare (generally under age 65); and
- may not be claimed as a dependent on another person's tax return.

### What is a high-deductible health plan (HDHP)?

A high-deductible health plan, or HDHP, is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses, which are adjusted annually for inflation:

Type of Coverage	2010	
	Minimum Annual Deductible	Maximum Annual Out-of-Pocket Expenses
Individual	\$1,200	\$5,950
Family	\$2,400	\$11,900

Except for preventative care, the high-deductible health plan may not provide benefits for any year until the deductible for that year is met.

### What other health coverage can I have and still qualify for an HSA?

You can maintain certain types of "permitted insurance" in addition to the high-deductible health plan and still remain eligible for an HSA. Types of "permitted insurance" include workers' compensation, auto insurance, insurance for a specified disease or illness that pays a fixed amount per day (or other period) of hospitalization, accident and disability insurance, dental and vision care and long-term care insurance.

## Health Savings Account Contributions (2010)

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

Contributions must be made in cash to an HSA that you establish with a qualified HSA trustee or custodian, such as an insurance company or bank, and cannot exceed a maximum annual limit, which is indexed annually for inflation:

Type of Coverage	2010
	Maximum Annual HSA Contribution
Individual	\$3,050
Family	\$6,150

You can contribute up to the maximum annual HSA contribution regardless of when during the year your HSA coverage begins. If, however, your coverage begins during the year, you must maintain the high-deductible health plan for a full 12 months or pay tax on your HSA contribution plus a 10% penalty.

In addition, individuals between ages 55 and 65 can make an additional "catch-up" contribution of up to \$1,000 in 2010 and each year thereafter.

### Who can make contributions to an HSA?

Contributions to an HSA can be made by an eligible individual, directly or through a cafeteria plan, by a family member on behalf of an eligible individual or by the eligible individual's employer. In addition, you may be able to roll over (transfer) unused funds from a flexible spending account (FSA) or health reimbursement account (HRA) or from an IRA to an HSA on a tax-free basis. Regardless of who makes the contributions, you own the HSA.

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### How am I taxed on HSA contributions?

You deduct your HSA contributions on an "above the line" basis, resulting in a dollar-for-dollar reduction in your adjusted gross income. Any contributions made by an employer to an HSA are not included in your gross income for tax purposes and are not subject to withholding.

### When must HSA contributions be made?

Contributions may be made at any time of the year in one or more payments, but must be made no later than April 15 of the year following the year for which the deduction is taken.

### Must I contribute the maximum to an HSA?

While there is no requirement that you contribute the maximum to your HSA each year, doing so will enable you to take full advantage of the powerful tax benefits provided by an HSA.