

# Health Savings Account Overview



## What is an HSA?

- A tax-favored account owned by an individual used to pay for current and future qualified medical expenses.
- Must be established in conjunction with a “High Deductible Health Plan” (HDHP).

## Who Is Eligible For An HSA?

Any individual that:

- Is covered by a High Deductible Health Plan
- Is **not** covered by any first dollar health coverage except for preventive care. Also, may **not** participate in any Flexible Spending Account unless the FSA is “Limited Purpose” FSA
- Is **not** enrolled in Medicare
- Is **not** claimed as a dependent on someone else’s tax return

## What is a High Deductible Health Plan (HDHP)?

A HDHP is a plan that does not cover first dollar medical expenses (except for preventive care).

For 2011, the deductible under a HDHP must be at least:

- \$1,200 (self coverage only)
- \$2,400 (family coverage)

For 2011, the maximum out-of-pocket expenses permitted under a HDHP are:

- \$5,950 (self coverage only)
- \$11,900 (family coverage)

*These amounts are indexed annually.*

Preventive care generally does not include any service or benefit intended to treat an existing illness, injury or condition. All covered benefits, except preventative care, must apply to the plan deductible—including prescription drugs.

## Contributions to an HSA

For 2011, the maximum amount that can be contributed to an HSA from all sources is:

- \$3,050 (self coverage only)
- \$6,150 (family coverage)
- Contributions can be made by the employer and/or the employee.
- For individuals age 55 and older, additional “catch-up” contributions of up to \$1,000 per year are allowed. The full \$1,000 can be contributed if a person’s 55<sup>th</sup> birthday falls during the year.
- Contributions must stop once an individual is enrolled in Medicare or a Medicare Advantage Plan.

## HSA Contribution Rules

### Employee

- Contributions can be made by a salary reduction arrangement through a cafeteria plan or premium only plan (POP).
- Contributions can be made as an after tax contribution and claimed as a deduction on tax returns. (Contributions can be made as late as April 15th of the following year).

### Employer

Contributions are excluded from employees’ income (special rules apply to sole proprietors, partners and 2% shareholders)

- HSA contributions made through a Cafeteria Plan or POP are subject to the discrimination rules applicable to those plans
- HSA contributions not made through a Cafeteria plan or POP are subject to the HSA comparability rules



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## Other HSA Advantages

### Affordability

Health insurance premiums may be lower with a High Deductible Health Plan (HDHP) compared to traditional health care plan premiums.

### Savings

HSA money accumulates tax free and can be used for future medical expenses.

### Control

HSA's allow individuals to:

- Determine how much money to put into the account
- Whether to save for future expenses or pay current expenses
- Allocate funds to different investments

## Ownership

The HSA belongs to the individual. Therefore, the HSA remains intact even if the individual:

- Changes jobs
- Changes medical insurance companies or coverage (**note:** this may limit future contributions)
- Becomes unemployed
- Moves to another state

## HSA Vesting

HSA funds belong to the individual and are not subject to forfeiture. There are no “use it or lose it” rules for HSAs and unused funds accumulate from year to year.

## Tax Treatments

- HSA contributions are tax deductible and distributions for qualified medical expenses are tax free
- Earnings accumulate tax free

## Disadvantages of an HSA

### Non-Qualified Distributions

- Distributions for non-qualified expenses are includable in taxable income **plus** a 20% excise tax (10% prior to 2011) unless a person is 65 or older.

### Reporting Requirements

**Employee** files IRS Form 8889 with form 1040 to report contributions and distributions.

**Employer** reports HSA contributions in “BOX 12” on form W-2.

See next page for qualified and non-qualified expenses.



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## HSA Qualified Expenses

Below is a *partial* list of qualified medical expenses eligible for reimbursement from your HSA. For more detailed information please refer to Publication 502 of the Internal Revenue Service Code.

- Childbirth classes
- Contact lenses/solution
- Dental treatment
- Expense Covered by HDHP but not reimbursed by HDHP (i.e. deductibles, co-insurance)
- Eye exams/eyeglasses
- Health Preiums
  - COBRA Premiums
  - Premiums will receive unemployment compensation
  - Premiums for those 65 or older excluding Medicare Supplement Premiums
- Hospital and emergency room services
- Laboratory fees
- Medicare premiums
- Long-Term Care premiums
- Oral surgery
- Orthodontia
- Pre-existing conditions
- Physical therapy
- Routine physicals
- Smoking treatment program
- Speech training
- Transportation expenses in rendering of medical services
- Vaccines
- Wheelchair

## HSA Non-Qualified Expenses

Below is a *partial* list of qualified medical expenses which are not eligible for reimbursement from your HSA. For more detailed information please refer to Publication 502 of the Internal Revenue Service Code.

- Cosmetic services
- Diapers or diaper service
- Face lifts
- Genetic testing
- Hair transplants
- Illegal operations
- Maternity cloths
- Over-the-counter medicines and drugs (unless prescribed by a physician)
- Pre-employment physical exams
- Prescription discount program fees
- Rogaine
- Student health fees
- Teeth bleaching
- Vision discount membership fees
- Warranties
- Weight loss foods



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