



Presents

Basics of the HSA

Putting you in charge of your Health Care

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HSA Overview

- HSA is money put in an account owned by an individual to pay for future medical expenses
- Must be used in conjunction with “High Deductible Health Plan” (HDHP)
 - Insurance that does not cover first dollar medical expenses (except for prevention)



Who Is Eligible for HSAs?

○ Any individual that:

- Is covered by a HDHP
- Is not covered by other health insurance
 - does not apply to specific injury insurance and accident, disability, dental care, vision care, long-term care
- Is not enrolled in Medicare
- Can't be claimed as a dependent on someone else's tax return



What Is a “High Deductible Health Plan” (HDHP)?

- Health insurance plan with minimum deductible of:
 - \$1,150 (self-only coverage)
 - \$2,300 (family coverage)
- Annual out-of-pocket (including deductibles and co-pays) does not exceed:
 - \$5,800 (self-only coverage)
 - \$11,600 (family coverage)

HDHPs can have:

- no deductible for preventive care
- higher out-of-pocket (co-pays & coinsurance) for non-network services



HSA Contribution Rules

- Contribution to HSA can be made by either the employer or the individual, or both
 - If made by the individual, it is an “above-the-line” deduction
 - If made by the employer, it is not taxable to the employee (excluded from income)
 - Can be made by others on behalf of individual and deducted by the individual
- All contributions are aggregated



HSA Contribution Rules

- Maximum amount that can be contributed is indexed annually by the Consumer Price Index
 - **\$3,000 (self-only coverage) - 2009**
 - **\$5,950 (family coverage) – 2009**
- Over 55 add “catch up contribution” see page 8

HSA Contribution Rules

	Deductible	Out-of-Pocket Maximum	Maximum HSA Deposit (2009)
Single Coverage	\$1,100	\$5,800	\$3,000
	\$1,500	\$5,800	\$3,000
	\$2,000	\$5,800	\$3,000
	\$2,500	\$5,800	\$3,000
	\$3,000	\$5,800	\$3,000
Family Coverage	\$2,200	\$11,600	\$5,950
	\$3,000	\$11,600	\$5,950
	\$4,000	\$11,600	\$5,950
	\$5,000	\$11,600	\$5,950
	\$10,000	\$11,600	\$5,950



HSA Contribution Rules

- For individuals age 55 and older, additional “catch-up” contributions to HSA allowed
 - 2009 and after - \$1,000
- Contributions must stop once an individual is enrolled in Medicare



HSA Contribution Rules

- Contributions can be made through cafeteria plans
- Rollovers from Archer MSAs and other HSAs permitted
- Employer contributions to HSA must be “comparable” for all employees participating in the HSA
 - If not comparable, there will be an excise tax equal to 35% of the amount the employer contributed to employees’ HSAs



HSA Contribution Rules

- In order to meet the requirement that the employer make comparable contributions, the employer must make contributions:
 - which are the same amount
or
 - which are the same percentage of the annual deductible
- Count only employees who are eligible individuals covered by the employer and who have the “same category of coverage” (i.e., self-only or family)
- Part-time employees are tested separately
- “Part-time” means customarily employed fewer than 30 hours per week



HSA Distributions

- Distribution is tax-free if taken for “qualified medical expenses”
 - Now includes over-the-counter drugs
- Cannot be used to pay for other health insurance except:
 - COBRA coverage
 - Qualified long-term care insurance
 - Health plan coverage while receiving unemployment compensation
 - For individuals eligible for Medicare:
 - Medicare (Part A, Part B, Medicare+Choice)
 - employee share of premiums for employer-based coverage
 - Cannot pay Medigap premiums



HSA Distributions

- Distributions are tax-free if taken for:
 - person covered by the high deductible
 - spouse of the individual
 - any dependent of the individual
- Spouse and dependents don't need to be covered by the HDHP
- If not used for qualified medical expenses, then amount is included in income
- 10% additional tax if taken for non-medical expenses, except when taken after:
 - Individual dies or becomes disabled
 - Individual is enrolled in Medicare



HSA Distributions

- HSA custodian must report all distributions – not required to check them for eligibility
- Under Archer MSA rules, the MSA custodian does not have to determine whether MSA distributions are used for medical purposes; the individual does that
- Given the less stringent distribution rules for HSAs, we assume Archer MSA holders will rollover to HSAs



HSA Distributions

- Should the HSA participant keep receipts?
 - YES! Need to prove that deductible was met
 - Not all medical expenses paid out of the HSA have to be charged against the deductible (e.g. prescription sunglasses)



Estate Treatment of HSAs

- If married, the spouse is treated as the owner
- In other cases:
 - The account will no longer be treated as an HSA upon the death of the individual
 - The account will become taxable to the recipient of it (including the estate of the individual)
 - Taxable amount will be reduced by any qualified medical expenses incurred by the deceased individual before death and paid by the recipient of the HSA
 - The taxable amount will also be reduced by the amount of estate tax paid due to inclusion of the HSA into the deceased individual's estate



Advantages of HSAs

○ HSA accounts encourage savings for future medical expenses

- When employer-sponsored coverage is lost during periods of unemployment
 - COBRA continuation coverage
 - other coverage
- Insurance coverage or medical expenses after retirement (before Medicare eligibility)
- Long-term care expenses
- Out-of-pocket expenses for Medicare
- Non-covered services under future coverage



Advantages of HSAs

- Accounts are owned by the individual (not an employer)
 - Individual decides:
 - How much to contribute
 - How much to use for medical expenses
 - Which medical expenses to pay from the account
 - Whether to pay for medical expenses from the account or save the account for future use
 - Which company will hold the account
 - What type of investments to grow account



Advantages of HSAs

Accounts are completely portable, regardless of:

- Whether the individual is employed or not
- Which employer the individual works for
- Which state an individual moves to
- Age or marital status changes
- Future medical coverage



Advantages of HSAs

No “use it or lose it rules” like Flexible Spending Arrangements (FSAs)

- Unspent balances in accounts remain in the account and can grow through investment earnings
- Encourages account holders to spend their funds more wisely on their medical care
- Encourages account holders to shop around for the best value for the health care dollars



Advantages of HSAs

- Accounts can grow through investment earnings
 - Many different investment options could be pursued
 - Individual chooses investment option that best meets their needs
- HDHP premiums should be cheaper than health insurance with traditional deductibles



HSA Qualified Expenses

- Dental
- Prescription Drugs
- Vision
- Doctors office visits
- Hearing
- Hospital bills
- and many more qualified health care expenses



Treasury Guidance

- Final Guidance July 2004
 - Eligible Individual
 - High Deductible Health Plans (HDHPs)
 - Preventive Care
 - Contributions
 - Distributions
 - Comparability
 - Rollovers
 - Cafeteria Plans and HSAs
 - Account Administration
 - Trustees and Custodians



HSA Questions

If you have any questions please contact
Brenda Molloy, HSA Coordinator,
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or
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