An Introduction to Health Savings Accounts
For Individuals and Employees
Contents

Objective
- Provide overview of Health Savings Accounts (HSAs)
- Answer common questions

Contents
- Background
- How does an HSA work?
- What’s a High Deductible Health Plan?
- Who can have an HSA?
- How much can I contribute?
- How do I get the tax benefits?
- How do I use the HSA?
- What’s an “eligible” medical expense?
- Who checks to see if my expense is “eligible”?
- How do I open an HSA?
HSA Background

- **Introduced to support Consumer Driven Health Care**
  - Provide consumers greater control over health care dollars, started in 2004.
  - Reduce health care costs by putting consumers in charge.
  - Give employers struggling to pay health care insurance a lower cost alternative and to encourage employers that do not offer health insurance to do so.

- **Strong Growth so Far**
  - Over 9.1 million people have HSAs.¹
  - HSA deposits exceed $18 billion.¹

- **Initial Results Positive**
  - HSA owners are more value conscious of health care expenses.²
  - HSA owners engage in improved wellness behavior.
  - HSA insurance plans are not increasing in cost as much as other plans.

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**Footnotes**

¹ Devenir Midyear 2013 HSA survey.
² Consumer-Directed Health Plan Report – Early Evidence is Promising, McKinsey & Company, June 2005
How does an HSAs work?

HSAs work in combination with a High Deductible Health Plan (HDHP), also referred to as “catastrophic” insurance or major medical. The HSA pays for the day-to-day medical expenses while the HDHP pays for major expenses (above the deductible amount). The law is designed so that you can put roughly the amount of your deductible in an HSA – see the next slide for details.

 Deferred Savings Growth

HSA contains funds for day-to-day expenses

High Deductible Health Plan for:
- Major medical expenses
- Serious illness
- Major surgery
- Post deductible expenses

Excess HSA funds grow tax-free to protect against future expenses

Health Savings Account for:
- Doctors visits
- Prescriptions
- Minor medical expenses

Health plan provides insurance against significant expenses
What’s a high deductible health plan?

- **High Deductible Health Plan (HDHP).** Individuals must be covered under an HDHP plan to qualify for an HSA. Ask your insurance provider to see if the plan qualifies. Generally, HDHPs require a minimum annual deductible and place a limit on the total out-of-pocket payments allowed:

<table>
<thead>
<tr>
<th>HDHP Requirements</th>
<th>Individual</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Deductible</td>
<td>At least $1,250 for 2013</td>
<td>At least $2,500 for 2013</td>
</tr>
<tr>
<td></td>
<td>At least $1,250 for 2014</td>
<td>At least $2,500 for 2014</td>
</tr>
<tr>
<td>Out-of-Pocket Max</td>
<td>Not more than $6,250 for 2013</td>
<td>Not more than $12,500 for 2013</td>
</tr>
<tr>
<td></td>
<td>Not more than $6,350 for 2014</td>
<td>Not more than $12,700 for 2014</td>
</tr>
</tbody>
</table>

- **No Other Insurance allowed – Except “Permitted” Insurance.** To prevent people from obtaining the benefits of an HSA while protecting themselves with other health insurance plans, the law restricts the other coverage you may have. Listed below are some of the big exceptions:
  - Auto and life insurance
  - Accident insurance
  - Insurance for a specific disease or illness
  - Insurance that pays for a fixed amount per day for hospitalization

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Who can have an HSA?

- **General Requirements**
  - Covered under an HDHP
  - Not be covered under another health plan
  - Not a dependent on another’s tax return
  - Under age 65 (or not covered by Medicare)

- **Eligibility Worksheet**
  - The Eligibility and Contribution worksheet to the right can help you determine if you are eligible. Please consult your tax advisor if you have any questions.
How much can I contribute?

- **General guidelines**
  - **Maximums.** HSA owners may contribute up to
    - $3,300 for 2014 ($3,250 for 2013) for individuals, and
    - $6,550 for 2014 ($6,450 for 2013) for families
  - **Catch-Up.** Plus catch-up contributions of $1,000 for 2014 (same for 2013) for those age 55-65

- **Contribution Worksheet** - The HSA Eligibility and Contribution worksheet to the right can help you determine how much you can contribute. Please contact your tax advisor if you have any questions.
How do I get the tax benefits?

Contributions

- Payroll deductions¹ – amounts contributed through payroll deductions are generally not included on your paychecks or W-2 as income.
- Personal contributions – amounts contributed to your HSA, whether by yourself or other individuals, may be taken as an “above the line” deduction. Meaning you do not have to itemize to get the tax benefit. Some states also provide the same benefit.

HSA Account

- Earnings growth in the HSA are tax-exempt
- Distributions are tax-exempt when used for qualified medical expenses

Tax Savings Worksheet - The Tax Savings Worksheet to the right can help you estimate your potential tax savings.

¹Amounts contributed by your employer are generally not eligible for a personal deduction.
How can I use my HSA?

- **Primary Purpose: to pay “Qualified” Medical Expenses – Tax Free.**
  - You are not taxed on distributions used to pay for “qualified” medical expenses for yourself, your spouse, or your dependents (regardless of whether they are covered by the insurance plan).

- **Other benefits**
  - **Roll-over and deferred growth.** Unused funds remain in your HSA and continue to grow, tax-free, year after year.
  - **Pay COBRA if you become unemployed.** Should you lose your current job you can use your HSA funds to pay your COBRA premiums. You can also use your HSA to pay insurance premiums if you are receiving unemployment compensation.
  - **Long term care insurance.** Subject to certain limitations.
  - **Pay insurance premiums at age 65.** At age 65 you can treat certain insurance premiums (Medicare Part A or B and employee share of employer-sponsored health care) as qualified medical expenses.
  - **Use as Retirement Fund at Age 65.** At age 65, you can take money out of the HSA for non-medical reasons, penalty free but subject to normal income taxes. Basically turning your HSA into another retirement account.

- **Non-Eligible Distributions – Taxes Plus 20%.** If you take the money for another reason, you will be subject to taxes on the distribution plus a 20% penalty.
What are “qualified” medical expenses?

- **Most medical expenses covered**
  - Doctor visits
  - Hospital expenses
  - Prescription drugs
  - Optical care
  - Dental
  - Note: Over-the-counter drugs are no longer eligible without a prescription (aspirin, cold medicine, etc.). Non-drug over-the-counter medical items are still permissible (bandages, contact lenses cleaner, etc.).

- **Who is covered**
  - Yourself
  - Spouse and dependents (regardless of whether they are covered under your insurance plan)

- **Qualified Medical Expense Listing** - The Listing to the right can help you determine which expenses are qualified and which are not.

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**Qualified Medical Expenses**

- Abortion
- Adoption
- Ambulance
- Hawaiian medical expenses
- Dental
- Optometry
- Ophthalmology
- Eye surgery
- Hospital expenses
- Hospice care
- Inpatient care
- Intensive care unit
- Inpatient psychiatric hospitalization
- Intermediate care for Alzheimer’s
- IVF treatment
- Medical care while traveling outside the U.S.
- Organ transplant
- Physician
- Physical therapy
- Podiatrist
- Prescription drugs
- Psychiatric hospitalization
- Radiation therapy
- Reproductive services
- Residential health care

**Non-Qualified Medical Expenses**

- Adult care centers
- Home health care
- Long-term care
- Dental
- Vision care
- Eye care
- Clothing
- Vet costs
- Eyewear
- Diabetic supplies
- Non-prescription

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Who checks to see if my expense is “qualified”?

- You are responsible for your HSA.
  - Keep Medical Receipts Private. Most employers do not review HSA expenses, so you can keep your medical records private.
  - Pay Directly with Check or Debit Card. You can pay the expenses directly, often with a check or debit card connected to your HSA.
  - Reimburse Yourself. You can pay for eligible medical expenses out of other funds and then reimburse yourself from the HSA.
  - Recordkeeping. You should keep the receipts and a record of your expenses, in case you are audited by the IRS.

- Qualified Medical Expense Tracking Worksheet - The Worksheet to your right can be used to help you keep track of your annual expenditures.
How do I open my HSA?

1. Complete an HSA Application.

2. Send in your application and initial deposit.

3. We’ll open your HSA.

Click on form for more details