

Health Care Savings Accounts (HSAs)



MT200704HR

Revised July 2011

1

Health Care Savings Accounts (HSAs)



MT200704HR

Revised July 2011

2

Authors

Joel Schumacher

Extension Economics Associate Specialist
Dept. of Agricultural Economics & Economics



Marsha Goetting

Professor & Extension Family Economics Specialist
Dept. of Agricultural Economics & Economics



Patricia Q. Brennan
Senior Extension Trainer

Rutgers Cooperative Extension-New Jersey



3

What is an HSA?

- Special saving account established by Federal law
- Use to pay for future *qualifying* medical expenses



4

Benefits of HSA

- Deposits made reduce individual's State & Federal taxes
- Unused funds can be carried over from year to year



5

Benefits of HSA

- Withdrawals for *qualifying* medical expenses are tax free
 - Federal
 - State



6

Qualifying Medical Expenses

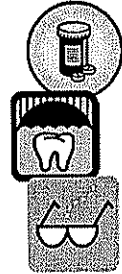
- Health insurance deductibles
- Co-payments
- Long-term care costs



7

Qualifying Medical Expenses (con'd)

- Prescriptions
- Dental expenses
- Eyeglasses & contact lenses



8

IRS Publication 502

- List of common *qualifying medical expenses*:
- Search for "Publication 502"
 - www.irs.gov



9

Paying Medical Expenses Before HSA was established

- Funds in HSA can only be used to pay for *qualifying medical expenses* that were incurred after HSA was established



10

Eligibility

- Must meet **ALL** four requirements:
 1. Have a qualifying high deductible health plan (HDHP):

Minimum deductibles:
 - \$1,200 individual
 - \$2,400 family



11

Out-of-Pocket Expenses

- Limit of out-of-pocket annual expenses (not including premiums) to:
 - \$5,950 per individual
 - \$11,900 for family



12

Eligibility (con'd)

2. Cannot have any other health insurance coverage

Exceptions:

- Accident Coverage
- Disability Insurance
- Dental Insurance
- Vision Insurance
- Long-term care Insurance



13

Veteran's Benefits

- If received Veteran's benefits in the past three months, not eligible to contribute to HSA



14

Eligibility (con'd)

3. Cannot be enrolled in Medicare

4. Cannot be claimed as a dependent on another person's tax return



15

Opening an HSA account

• Can be established at:

- Banks
- Credit Unions
- Insurance Companies
- Mutual Fund Companies



16

Savings Accounts

- Cannot use established savings account as an HSA



17

Comparison of HSA providers

- www.hsainsider.com



18

HSA Fees



- Financial institutions may have:
 1. Minimum balance & deposit requirements
 2. Check writing fees
 3. Monthly maintenance fees

19

HSA Contribution

- **Maximum amount (2011):**
 - \$3,050 single
 - \$6,150 family



20

Catch-up Contribution

- Must be 55 or older
- Maximum allowable:
- 2011: \$1,000



21

HSA Deposits

- Do not need to be made all at one time:
 - Regular
 - Irregular basis



22

HSA Deposits (con'd)

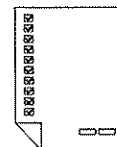
- Deposits can be made any time of the year
- As late as April 15 of the following year to qualify for State & Federal income tax deduction



23

Reporting an HSA

- IRS Form 8889 (State & Federal)
 - Part 1: Contributions & Deductions
 - Part 2: Distributions & Penalties for non-qualified withdrawals



24

Taxation of Withdrawals



- *Qualifying medical expenses* are not taxed
- Non-qualifying expenses are subject to:
 - State & Federal income taxation
 - 20% penalty

25

Example Non-Qualifying Withdrawals:



- Frank had an unexpected car repair bill
 - Withdrew \$500 from HSA for car repairs
 - Not a *qualifying medical expense*

26

Example Non-Qualifying Withdrawals (con'd):



- \$500 withdrawal reported as income on Frank's State & Federal tax returns
- 20% percent penalty of \$500
 - $\$500 \times 20\% = \100

27

65 or older



- No 20% penalty for non-qualifying medical expenses
 - Withdrawal is subject to State & Federal income taxation

28

Change Jobs or Retire



- Eligibility is not directly affected by an individual's employment status

29

Death of Account Holder

- Transferred to the named beneficiary on HSA account



30

Death of Account Holder (con'd)



- If beneficiaries are not designated then the account passes according to:
 - Owner's will
 - Montana law of Intestate Succession

31

Transferring Funds



- One-time only transfer from:
 - Individual Retirement Account (IRA)
 - Flexible Spending Account (FSA)
 - Remaining Balance

32

Transferring Funds



- Fund transferred from IRA to HSA are not subject to the 20% penalty

33

Partial Year Eligibility



- Different rules apply to individuals who are eligible for only a portion of a year
 - If eligible on December 1st, considered eligible for the entire year

34

Partial Year Eligibility (con'd)



- If not eligible on December 1 then contribution limits are prorated for the period of eligibility.

35

Example: Partial Year Eligibility



- January 1
 - Jane eligible for an HSA
- July 1
 - Jane enrolled in a traditional health care plan through her employer

36

Example:

Partial Year Eligibility (con'd)



- Jane's employer does not offer a high deductible health plan:
- Contribution limit is pro-rated based on half-year eligibility:
 - $\$3,050 \times \frac{1}{2} = \$1,525$

37

Additional Resources:

- Federal Health Care Savings Accounts (HSA) U.S. Department of Treasury HSA Web site:
www.treas.gov/offices/public-affairs/hsa
- Montana Medical Care Savings Accounts (MSA) www.montana.edu Search "MSA"



38

HSA MontGuide

- Health Care Savings Accounts (HSA) MontGuide:
 - www.montana.edu
 - Search "HSA"



39

Health Care Savings Accounts (HSAs)



Questions?

Revised July 2011

40