HSA

Health Savings Account

Your Solution for Long-Term Health Security

You'll Save Money

- With Tax Exempt Savings
- Reduced Insurance Premiums
- Long Term Savings

Your HSA is Portable

- You own your account, and the funds in it go with you.

Your HSA can be passed on to a beneficiary after death.

- Your named beneficiary - such as a spouse or estate.

You'll Feel Empowered

- By taking control and managing your Health care.

Frequently Asked H.S.A. Questions

1. Q: What is a Health Savings Account?
Health Savings Accounts are a new option for health insurance and they have two parts. The first part is a health insurance policy that covers large hospital bills. The second part of the Health Savings Account is an investment account or retirement account from which you can withdraw money tax-free for medical care. Otherwise, the money accumulates with tax-free interest until retirement, when you can withdraw for any purpose and pay normal income taxes.

2. Q: Why should I have a Health Saving Account for me or my family?
If you or your employer are tired of sending hundreds and hundreds of dollars each month to your health insurance company, and would prefer to keep a big chunk of that money for yourself to spend on health expenses or save it for the future, then you need to look into a Health Savings Account.

3. Q: Where does the money deposited in the account come from?
The money comes from refinancing your current health insurance.

The average cost of health insurance was $9,068.00 for a family in 2003 in the U.S., according to the Kaiser Foundation. That is how much money on average, per family, was spent last year on family health care insurance coverage (HMOs, PPOs, fee for service plans) in the United States.

Remember HSAs are two parts: an insurance policy and a tax-free account. So, if you take $3,000.00 of that $9,068.00 (leaving $6,068.00 unspent) and you or your employer purchase a health insurance policy that covers your medical expenses above $5,000.00, the high deductible health insurance plan is in place.

Now, according to the law, you are allowed to deposit tax free up to $5,000.00 to pay for the routine medical care. Withdrawals for medical care are tax-free. Your insurance company may administer the account or you can open the account with an HSA administrator like FirstMSA (www.firstmsa.com) or MSABank (www.msabank.com) or Prime Healthcare (www.webhealthsavingsaccount.com) or a local bank that offers Health Savings Accounts.

To review, out of the $9,068.00, you spent $3,000.00 on a health insurance policy with a $5,150.00 deductible. The insurance covers your families health care costs that exceed the $5,150.00 deductible.

Out of the $6,068.00 remaining, you and your employer deposit $5,000.00 into your health savings account. It is now your money. If you leave your employer, it is still your money. It follows you. What you do not spend out of the account rolls over, so if you and your family only have health costs of $2,000.00 this year, you and your family would have $3,150.00 remaining in your Health Savings Account. So, next year, you will start your Health Savings Account with $3,150.00, plus the interest you earned, and you and your employer will add another $5,000.00 to your account, giving you ($5,000.00 + $3,150.00 = $8,300.00) to spend next year.

So, you and your employer just saved $918.00 in health care costs in the example above.

Comparing Current Health Insurance Costs to Current Health Savings Accounts

Typical Family Health Insurance

$755.67: Average monthly premium for average 2003 Family Health Insurance
$9,068: Annual 2003 Cost of Family Health Insurance in the U.S. according to the Kaiser Foundation

Family Health Savings Account Offered

$234: Monthly Premium for a $5,000 Deductible HSA Family Health Insurance Policy.
(40 to 49 yr. old primary insured)
$2,808: Annual Premium for a $5,000 Deductible Family H.S.A. Policy.
$5,000: **$5,000: Goes in your pocket, into your Health Savings Account**
(instead of paying the insurance company for higher premiums, you keep this money for you and your family)
$7,808: Total cost of Premium **and 100% Funded HSA**

Compare Costs:

$9,068: Annual 2003 Cost of Family Health Insurance in the U.S.
$7,808: Total Annual cost of H.S.A. Premium **and 100% Funded HSA**

$1,260 Savings a Year with a Fully Funded H.S.A.
(You can use this cash for Christmas)

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4. Q: What other advantages do Health Savings Accounts have over traditional health insurance?

If you are unemployed or laid off and are collecting unemployment insurance, then you can use funds from your Health Savings Account to pay for your health insurance premium and for your routine health expenses -- all tax-free.

Another advantage is that you can spend tax-free money out of your Health Savings Account for long term care insurance.

5. Q: Do I have an HSA qualified health insurance plan?

The quickest way to find out if your health insurance plan is HSA qualified, is to ask your health insurance company. If they say yes, then you know your health plan qualifies you to open an HSA.

Or, if your insurer offers both the insurance and the HSA account for the health insurance policy you have, then the policy is clearly HSA qualified.

For those whose employer provides your health insurance, ask your employer. If they do not know, they should ask the insurer on behalf of the employees.

Why that is, I can only speculate: the insurers lawyers are worried that because the final, set-in-stone Treasury rulings have not all been issued yet, and the insurer is reluctant to tell its policy holders if their policy is HSA qualified. Some insurers apparently - refuse to answer this straight-forward question.

In that case, I recommend voting with your check book, and get a new insurance policy with a company that will tell whether their insurance policy is HSA qualified. In all seriousness, find a new insurer.

If, for whatever reason, you do not want to leave your insurer, here are some general guidelines in the form of several questions you need to answer, to find out if your health insurance plan is an HSA qualified plan:

For family health insurance plans:

Is the annual deductible between $2,000 and $10,000? If the answer is yes, you are OK, so far. If the answer is no (either the deductible is less than $2,000 or more than $10,000) then you do not have an HSA qualified plan.

Does your family insurance plan have a comprehensive deductible? For example, if one person spends $1,000, and the other $800, and a third person has expenses of $1,200, each expenditure counts toward the $3,000 deductible, and your deductible is met when all expenditures exceed the deductible? If you answered yes, then your plan qualifies.

If, on the other hand, your family plan has a deductible that fits in the HSA compatible deductible range, but allows for individual family members to be covered by the insurance if their expenditures reach a certain dollar amount below the overall deductible, then no, your plan does not qualify. For example, if your family deductible is $3,000, but if a family member incurs expenses that exceed $1,500 then that family members future expenses are covered by the health insurance, then no, you do not have a HSA qualified plan.

You could have another kind of plan where the deductible for the entire family is $4,000, but the insurance starts to pay benefits for each family member at $2,250. This meets the minimum family deductible (of $2,000) for an HSA qualified deductible. So this plan qualifies -- but -- and this is a big but -- you can only contribute $2,250 to the HSA for the entire family. So, you would be better off, getting a health insurance plan with a deductible -- the higher the better -- so you could put that amount into your HSA.

Does your maximum out-of-pocket amount per year for your family plan exceed $10,000? If yes, you do not have a HSA qualified health insurance plan.

For health insurance plans for singles:

Is your annual deductible more than $1,000 and less than $5,250? If yes, then you are OK so far, in terms of having a HSA qualified plan.

Does your maximum out-of-pocket expenditure for your single insurance plan exceed $5,250? If so, it does not qualify as a HSA qualified health insurance plan.

For both family and single health insurance plans:

Do you pay co-pays before you reach the deductible? If yes, then you do not have a HSA qualified plan, unless the co-pay is for prescription drugs. In that case, your health insurance will qualify for an HSA until 1/1/2006 because the U.S. Treasury has issued special transition rules for such plans. However, if you pay co-pays for prescription drugs, or are otherwise insured below your deductible for prescription drugs, the drug coverage you have must be a separate plan or a rider to your plan. You can go to the U.S. Treasury section of this web site (button on the left side of the Home Page) to read the Media Release about this transition rule, or the actual HSA transition rule issued by Treasury.

If your plan meets all the requirements listed above, it is an HSA compatible plan.

Remember, the maximum HSA deposit for a family cannot exceed the deductible, or in the case of a deductible higher than $5,250, the HSA deposit cannot exceed $5,250 in 2005. Deductibles will change in future years.

For single individuals, your maximum HSA deposit can not exceed your deductible, and in cases of a deductible higher than $2,650, your HSA deposit cannot exceed $2,650 in 2005. Deductibles will change in future years.

6. Q: Can I open an HSA myself?

Some insurers will offer you the insurance policy and the Health Savings Account, so you will not have to open a separate account. Other insurers offer just the insurance policy, and you will have to find a bank or other trustee to open your Health Savings Account.

7. Q: Why would some one who is less healthy want a Health Savings Account?

There are two key reasons the less healthy should choose a Health Savings Account.

The first reason is to have control over their own health care decisions and treatments, including their prescription drugs.

With an HMO, the sick must face the rationing regime in place by HMOs to contain costs, which includes a frustrating waiting list to see a specialist and treatment and prescription drug formularies that may not have the most up-to-date treatments or brand name drugs that would make them feel the best.

The second reason is a financial incentive.

Assuming the less healthy would rather not be in an HMO or other managed care plan, then they would likely choose a fee-for-service plan. The standard fee-for-service plan has a $500 deductible, with a 20% co-pay of the next $5,000. This means the person would pay $500 for the deductible, and $1,000 for 20% of $5,000, before being covered 100%.

That is $1,500 in after-tax income to be insured 100% for someone who is less healthy in a traditional, low deductible, fee-for-service health insurance plan.

With a Health Savings Account, the same individual would pay a much smaller premium, and in most cases, the savings fund a majority of the deductible in their Health Savings Account.

With a $1,700 deductible, and, say $1,500 deposited tax-free in the Health Savings Account, the less healthy individual with an HSA would have to come up with $200 in after tax money to be covered 100%. ($1,700 deductible minus $1,500 from the Health Savings Account equals $200 to meet the deductible).

So the choice for a less healthy individual in a fee for service plan is: (1) pay $1,500 in after-tax funds to pay to be covered 100% by their insurance, or (2) with an HSA, pay $200 in after-tax money to be covered 100%.

The less healthy, therefore, have a financial incentive to choose a Health Savings Account.

8. Q: How much money could build up in my Health Savings Account over time?

Possible Build-Up of Savings For Families
With An HSA Under Different Time and Medical Expense Scenarios

Health Savings Account Balances
(Assumes a $4,000 Deductible and Deposit Each Yr.)

# Years keeping H.S.A	Age Head of House	After Family Medical Expenses of $1,000 Each Yr	After Family Medical Expenses of $500 each yr.	Each Yr Zero Family Medical Expenses
5 Years	**35**	**$17,406**	**$20,307**	**$23,208**
10 Years	**40**	**$39,620**	**$46,224**	**$52,827**
15 Years	**45**	**$67,972**	**$79,301**	**$90,630**
20 Years	**50**	**$104,158**	**$121,517**	**$138,877**
25 Years	**55**	**$150,340**	**$175,397**	**$200,454**
30 Years	**60**	**$209,282**	**$244,163**	**$279,043**
35 Years	**65**	**$284,509**	**$331,927**	**$379,345**

Assumes 5% interest per year, and 100% of a $4,000 deductible is deposited each year. One Medical Savings Account insurer has paid 5% interest on balances in their Medical Savings Accounts since January 1, 1997, and has not changed their interest rate since 1/1/97. (Source-The HSA Coalition)

9. Q: Is there an IRS approved list of medical expenses that I can spend my tax free Health Savings Accounts funds on?

Yes, there is list of allowable expenses published by the U.S. Treasury Department, actually the Internal Revenue Service, referred generally as the 213 (d) list, since it appears in IRS regulation 213 (d). Here is a link to the list of allowable/not allowable expenditures: http://www.irs.gov/pub/irs-pdf/p502.pdf.

In general, you can spend tax-free from your Health Savings Account on all medical, dental (including braces for your children), and vision expenses, chiropractic visits, and even acupuncture, but not on your insurance premium, unless you are unemployed and are collecting Federal unemployment benefits.

10. Q: What options for deductibles and out-of-pocket maximums are insurers allowed to offer to employers or individual consumers?

You have a variety of options available to you. Deductibles range from $1,000—$2,650 for singles and from $2,000 — $5,250 for families. Deductibles will change in future years.

11. Q: Does the maximum out of pocket include the deductible?

Yes.

12. Q: Can a co-pay prescription card be offered under a qualified high deductible plan? The U.S. Department of the Treasury has recently stated that those with a health insurance plan that is in all other respects HSA compatible, except that it provides prescription drug coverage below the deductible, can have an HSA until 1/1/2006.

If you want to read the full text of the Ruling, go to: http://www.hsainsider.com/treasury/treasury_3.pdf

13. Q: If you purchase a HSA-compatible healthcare plan and you incur expenses that the plan doesn't allow - such as over their "reasonable and customary" schedule, can you pay for that amount (over the "reasonable and customary") even if it does not go towards meeting the deductible under the health insurance plan?
Yes.

14. Q: How long have HSA accounts been available?
The law became effective January 1, 2004, and was signed into law by the President in early December, 2003.

15. Q: Eligibility?

Here is the U.S. Department of Treasury's answer, which can be found at: http://www.treas.gov/offices/public-affairs/hsa/faq2.html#hsa3

Who is eligible for a Health Savings Account?

To be eligible for a Health Savings Account, an individual must be covered by a High Deductible Health Plan (HDHP), must not be covered by other health insurance (does not apply to specific injury insurance and accident, disability, dental care, vision care, long-term care), is not eligible for Medicare, and cant be claimed as a dependent on someone else's tax return.

What Is a High Deductible Health Plan (HDHP)?

A HDHP is a health insurance plan with minimum deductible of $1,000 (self-only coverage) or $2,000 (family coverage). The annual out-of-pocket (including deductibles and co-pays) cannot exceed $5,250 (self-only coverage) or $10,000 (family coverage). HDHP's can have first dollar coverage (no deductible) for preventive care and higher out-of-pocket (co pays & coinsurance) for non-network services.

For information about if your health insurance plan is HSA qualified, go to question number 5 under HSA Basics (click on the button on the left hand side of this page.)

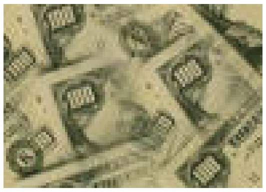
16. Q: Did I have to set up the H.S.A. by the end of 2003 (like and IRA) or can I do it now to still get the tax saving benefits for last year? (thanks for this excellent site and service.)
HSAs did not exist last year. The law authorizing them was signed by President Bush in early December (and was part of the Medicare Rx bill) and the HSA section became effective on 1/1/04. You would have to have had a Medical Savings Account last year to get a tax benefit for 2003.

17. Q: I understand co-pay plans are not eligible. Do prescription drug co-pay riders fall under that rule?

The U.S. Department of the Treasury has recently stated that those with a health insurance plan that is in all other respects HSA compatible, except that it provides prescription drug coverage below the deductible, then until 1/1/2006, such persons can have an HSA. This is how the U.S. Department of Treasury's media release described this recent Treasury ruling: http://www.hsainsider.com/treasury/treasury_7.pdf

INTERACTION OF HDHP BENEFITS WITH PRESCRIPTION BENEFITS AND TRANSITIONAL RELIEF Prior guidance noted that an eligible individual must be covered by an HDHP and generally no other health plan that is not an HDHP. Guidance issued today clarifies that individuals covered by a health plan that provides prescription drug benefits before the minimum annual deductible of an HDHP has been satisfied may not make contributions to an HSA. However, companion guidance also issued provides transition relief to those individuals covered by both an HDHP and by a separate health plan or rider that provides prescription drug benefits before the deductible of the HDHP is satisfied. Under the relief, such individuals continue to be eligible to contribute to HSAs before 2006.

18. Q: Can I contribute to this plan up till April 15th, 2006 to obtain a deduction for 2005?



Yes, provided, of course you have HSA qualified insurance, and the maximum deductible amount is pro-rated based on the first full month your high deductible health plan was in place.

To answer the question "What happens if on day two of having an HSA, I'm hospitalized, and do not have enough money built up in the account?" some insurers are selling a hospitalization rider (with a one time fee) that allows individuals or employees to be paid the amount they would have deposited into the HSA over the course of more than a year, if they are hospitalized in the initial months of having an HSA.

The way that one insurer's rider works is that if in the third month of the HSA being in force the HSA policy holder is hospitalized for three days, the insurance company sends the insured a check for the deductible minus an assumed amount of three months deposit into the HSA account. (The rider does not assume the maximum allowable amount is deposited each month.)

So, in the case of this insurer, with this type of rider, the HSA insured uses this money paid to them to meet their deductible expenses, and their high deductible health insurance covers their other hospitalization costs, once their deductible is met.

19. Q: I carry a private $2K deductible health ins. policy. Can I combine that with just the investment/savings part of an HSA? Can my ins. premiums be paid through the HSA?

Your insurer is the best one to answer that question, but assuming your health plan qualifies (and the deductible does qualify) then yes, you can just combine it with an HSA you open somewhere else. The only time you can pay your premium out of your HSA is when you are unemployed and are collecting unemployment. Please see the question (and answer) for "Do I have an HSA qualified health plan?" in this section (Question number 5) .

20. Q: Who is eligible to open an HSA? Are there income restrictions similar to an IRA? Does an individual need to meet other guidelines?

The HSA eligibility criteria is simply that the health plan that the employee or the individual has conforms to the HSA qualified health insurance criteria. There are no income limits. Please see the question (and answer) for "Do I have an HSA qualified health plan?" in this section (Question number 5) .

21. Q: What is an Archer Medical Savings Account?

An Archer Medical Savings Account was the pilot project version of Health Savings Accounts. An Archer Medical Savings Account has numerous and confusing restrictions on who could use an Archer MSA and how it could be funded. These restrictions have been lifted. **The Health Savings Account is the unrestricted version of an Archer MSA.**

You should not purchase an Archer MSA (even if you can find one.)

The restrictions on Archer MSAs were extensive: MSAs were allowed for only those whose company had 50 or fewer employees and for the self-employed. HSAs are available to everyone under 65, and there are no limits on the size of the company that can use them. Furthermore, MSAs limited the deposit into the account to only the employee or the employer, not both. The HSA allows both the employee and the employer to contribute into the account. The MSA had a numerical cap on the total number of MSAs that could be sold, and it had a sunset provision which would have ended the pilot program totally. That provision served to keep insurers out of the market, so there were very few MSA insurers. HSAs are permanent. Finally, there was a limit of 65% of the deductible that could be deposited into the MSA for individuals, and a limit of 75% of the deductible that could be deposited into the MSA for family plans. With HSAs you can deposit 100% of the deductible, up to $5,250 for families and $2,650 for individuals in 2005. These rates will change in future years.

22. Q: Can HSA accumulated funds eventually be used to pay for elder-care or nursing home/retirement facility?

Yes, in fact, even before you reach that point you can pay for long term care insurance premiums with tax-free money out of your Health Savings Account.

23. Q: Can you expand on the statement that the contributions to an HSA is tax free. Is the contribution an individual makes to a non-employer sponsored HSA a deductible expense to the individual?

For individuals with a non-employer sponsored HSA, the HSA deduction will likely appear on the 1040 in the adjusted gross income section of the tax return. Contributions are tax free to individuals through an above the line deduction. They are pre-tax for an employer or employee in an employer provided plan.

24. Q: Is there a list of over the counter drugs that are always/never/sometimes covered under an HSA

You can purchase over the counter drugs every day of the week from your Health Savings Account.

25. Q: Will I pay tax penalties on the monthly fees my HSA custodian deducts from my account? (These aren't qualified medical expenses.)

The IRS has ruled that nominal bank and custodial fees withdrawn directly from the account are allowable withdrawals, and therefore, are not subject to taxes or penalties. Some trustees allow their HSA clients to choose their method of payment for custodial fees, with either a monthly debit from the account or by a check paid annually.

26. Q: Can I use my Health Savings Account for non-medical expenses?

This is the classic, Can I go to Disney World with the money from my Health Savings Account question. The answer is, yes, you can spend money out of your Health Savings Account for non-medical expenses, but you have to pay income tax and a 10% penalty for a non-medical withdrawal prior to age 65.

27. Q: Why were 25% of Archer MSAs purchased by those who had been uninsured for six months or more in 2001?

In 2001, which is the last year that data exists from the IRS, 25% of those who purchased an Archer MSA were previously uninsured. The most rational explanation for this high percentage of people purchasing an Archer MSA is the low cost of a high deductible health insurance plan. (As the deductible increases, the premium decreases, making a high deductible health insurance plan much more affordable than traditional health insurance.) For the uninsured, the price of health insurance makes a big difference as to whether they are insured or not.

In other words, for those who cannot afford a traditional health insurance plan, but still want protection against bankruptcy from an unexpected hospitalization, then a high deductible insurance plan is the best solution.

28. Q: Once I qualify for Medicare (hit the age of 65 yrs. old) can I get a Medicare Health Savings Account?

Not yet, but the Medicare Prescription Drug bill fixed the Medicare Medical Savings Account section to remove the regulatory impediments put in by the Clinton Administration. Medicare is now reviewing the changes to the old Medicare MSA law, and will be issuing new regulations later this year. Once those new regulations are issued, it is likely Medicare Savings Accounts will be offered to Medicare seniors.

HSAs are called Medicare Savings Accounts and will be available as soon as Medicare issues new regulations based on the changes to that were made in the already existing provision of the Medicare law, which were contained in the Medicare Prescription Drug bill signed into law by the President in December, 2003.

29. Q: What if I die, what happens to the money in my Health Savings Account?
The HSA goes to your named beneficiary. If you designate your spouse, the money is tax-free. If your beneficiary is someone else, he or she generally will owe income tax but no penalty.

30. Q: What happens to my Health Savings Account funds when I die? Can I leave it to my children?
If the named beneficiary in your will is your spouse, the spouse continues to access the Health Savings Accounts funds tax-free for medical expenses and pay income taxes on any non-medical expense. If your beneficiary is anyone else, then they will generally owe income taxes when the assets move to them, but no penalty.

31. Q: What accountability is required for how the money in the HSA is spent. i.e. If I spend $1200 on prescriptions using my American Express card can I then reimburse myself from the HSA? Is the administrator responsible to ensure all expenses are valid?
The administrator is not responsible for what someone with an HSA spends the funds on, the HSA holder is the one responsible. Yes, you can reimburse yourself.

32. Q: I'm retired, age 63, spouse 60, current health ins. is BlueCross PPO with $5,000 deductible (per person). Main question is: can we set up one of the new HSA accounts for 2005 and put aside pre-tax dollars even though we have no "earned income"? Our income consists of my Soc.Sec. benefit plus interest from various investments. I guess our concern is if you must have "earned income" and secondly if our current Blue Cross PPO $5,000 deductible primary health policy qualifies. Our current health is probably not good enough to qualify for a new health insurance policy.
You can open an HSA if you do not have "earned income," (and you do not need to itemize either) but you must have a HSA qualified health insurance policy to open an HSA. To find out if you have an HSA qualified health insurance policy, go to the question "Do I have a HSA qualified policy"

33. Q: If I choose not to be covered under my spouse's plan at work and I carry my own insurance policy, can I still qualify for an HSA?
Yes, provided you buy an HSA qualified health insurance plan. To find out what kind of plan that is, please see the question (and answer) to "Do I have a HSA qualified health insurance plan?"

34. Q: Can I open an HSA for a dependent who is not a child?
There is no HSA restriction with regard to this question. There may be state restrictions, but the best way to find out if an HSA is available in this regard is to call those insurers in your states offering HSAs.

Check out www.HSAInsider.Com for more information

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