

Health Savings Accounts

IMPORTANT: There are many different health plans. Ask the person who helps you with your health insurance about your specific circumstances. That could be the Human Resources department where you work or your insurance broker if you are purchasing the insurance yourself.

What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a combination of a health insurance plan and a savings plan that covers certain health care expenses.

The first part of an HSA is a health insurance plan that must meet specific rules to qualify.

The second part of an HSA is a tax-favored savings account that helps you save money for health-related expenses. You own the savings account. You also decide how much you contribute to the savings account and how you use the savings.

Below is an illustration of the two parts that make up an HSA.



How does an HSA work?

Before a plan qualifies as an HSA, the health insurance part must meet special requirements.

The health insurance plan must be a high-deductible plan and meet other rules to qualify as part of an HSA plan. Insurance companies often refer to these types of plans as HSA-compatible.

The savings account is for contributions you make. You decide how much to contribute and your contributions are tax-free. The savings account also earns tax-free interest. If you do not spend the money in your account, the balance rolls over to the next year.

Typically, you must satisfy the deductible before your health insurance plan pays benefits. You decide if you want to use your savings from your savings account to pay for out-of-pocket health expenses.



Cathy Miller,
Business Writer/Consultant

cathy@millercathy.com
(858) 344-9959
www.SimplyStatedBusiness.com

Health Savings Accounts

How does an HSA work? (continued)

In addition to the high deductible requirement for your health insurance plan, additional limits and rules apply to HSAs.

What are the rules and limits for an HSA?

The Internal Revenue Service (IRS) sets the rules and limits for an HSA, including what qualifies as an eligible health insurance plan. The IRS updates the limits annually.

DEDUCTIBLE TIP

Most HSA plans do not apply the deductible to covered preventive services.

Check your plan for a list of covered preventive services

QUALIFIED HEALTH INSURANCE PLAN

- The IRS refers to the insurance plan as a High Deductible Health Plan (HDHP)
- For 2013, the deductible must be *at least* \$1,250 for an individual or *at least* \$2,500 for a family
- For 2013, the maximum out-of-pocket expenses (including the deductible) is \$6,250 for an individual or \$12,500 for a family

IMPORTANT: YOUR HEALTH INSURANCE PLAN COULD HAVE A HIGHER DEDUCTIBLE.

CONTRIBUTIONS

- For 2013, the annual maximum you can put into your health savings account is \$3,250 or an annual maximum of \$6,450 for a family
- If you are 55 or older, you can contribute an additional \$1,000 as a “catch-up” contribution

IMPORTANT: IF YOUR EMPLOYER CONTRIBUTES TO YOUR HSA PLAN, YOUR EMPLOYER’S CONTRIBUTION PLUS YOUR CONTRIBUTION CANNOT EXCEED THE ANNUAL MAXIMUM SET BY THE IRS.

USING YOUR SAVINGS

The money in the savings account is yours, but there are rules based on how you use your savings.

Withdrawals are tax-free when used for eligible health expenses, which include your deductible, copayments or coinsurance (the amount you pay after meeting your deductible), covered medical services, prescriptions, dental and vision care. See *IRS Publication 502, Medical & Dental Expenses*.



Simply stated health care
Keeping health care simple & informative



Cathy Miller,
Business Writer/Consultant

cathy@millercathy.com
(858) 344-9959
www.SimplyStatedBusiness.com

Health Savings Accounts

Withdrawals are taxable when used for any other purpose, and if you are under the age of 65, you are subject to a 20% penalty. If you are 65 or older, the amount you withdraw from savings for non-eligible expenses are taxable, but the 20% penalty does not apply.

IMPORTANT: AFTER YOU ENROLL IN MEDICARE, YOU CANNOT CONTRIBUTE TO YOUR SAVINGS ACCOUNT; HOWEVER, THE SAVINGS ARE STILL YOURS TO USE.

Who can have an HSA?

In order to qualify for an HSA, the IRS requires the following.

- You must be covered at the first of the month under a qualified health insurance plan
- You cannot have other health coverage (except for limited coverage described by IRS)
- You cannot be enrolled in Medicare
- You cannot be claimed as a dependent on someone's tax return

What are the advantages of an HSA plan?

Tax-free contributions, interest earned on your savings, and withdrawals for eligible health expenses help you save on taxes.

Mandated limits on your deductible and out-of-pocket expenses help you better manage your health care expenses and could mean lower out-of-pocket costs for you.

Lower premiums for the high-deductible health insurance plan could reduce what you have been paying for health insurance.

Increased savings through the savings account that you can use for future expenses or help save for retirement. If your employer contributes to your HSA plan, you can build savings quickly.

More control over how you spend your money on health care, and what you do with your savings. You can pass savings on to beneficiaries.



Simply stated health care
Keeping health care simple & informative



Cathy Miller,
Business Writer/Consultant

cathy@millercathy.com
(858) 344-9959
www.SimplyStatedBusiness.com

Health Savings Accounts

Compare Your Options

Do not let the high deductible scare you. The lower premium could mean you have lower overall out-of-pocket costs.

The following are suggestions for comparing an HSA plan to other health insurance plans.

IMPORTANT: YOU CAN SAVE MONEY THROUGH YOUR HEALTH PLAN'S PARTICIPATING PROVIDER DISCOUNTS. CHECK TO SEE IF YOUR DOCTORS PARTICIPATE IN THE PLAN'S NETWORK.

1. Estimate your typical health expenses for one year. Use your current plan of benefits.

EXAMPLE – CURRENT PLAN

- 3 doctor visits (1 preventive, 2 for illness) X \$25 office visit copayment = \$75
- 1 specialist visit X \$35 copayment = \$35
- 5 generic drug prescriptions X \$10 copayment = \$50

Total out-of-pocket costs = \$160

EXAMPLE – HSA PLAN WITH \$2,000 DEDUCTIBLE

- 1 doctor visit (preventive) covered at 100% (deductible does not apply)
- 2 doctor visits (illness) X \$100 = \$200 (applied to deductible – you pay \$200)
- 1 specialist visit X \$175 = \$175 (applied to deductible – you pay \$175)
- 5 generic drug prescriptions X \$75 = \$375 (applied to deductible – you pay \$375)

Total out-of-pocket costs = \$750

Your Annual Cost	Current Plan	HSA Plan
Premium	\$7,200	\$4,200
Out-of-pocket	\$160	\$750
Total cost	\$7,360	\$4,950
Estimated HSA savings		\$2,410

IMPORTANT: THE EXAMPLES ARE FOR ILLUSTRATIVE PURPOSES ONLY. ACTUAL RESULTS WILL VARY. THE EXAMPLE ASSUMES YOU PURCHASED YOUR OWN INSURANCE AND ARE RESPONSIBLE FOR PAYING ALL COSTS.



Simply stated health care
Keeping health care simple & informative



Cathy Miller,
Business Writer/Consultant

cathy@millercathy.com
(858) 344-9959
www.SimplyStatedBusiness.com

Health Savings Accounts

Your Employer Contribution

Does your employer offer health benefits? Is an HSA one of your health plan options? If so, ask the following questions about the HSA.

- Does your employer contribute to your HSA? If so, how much?
- What is the amount of the deductible?
- Does the deductible apply to preventive care?
- What coinsurance/copayments do you pay? What is the maximum out-of-pocket cost?
- What is the premium for the HSA? How much of the premium do you pay?

Using the same example from the previous page, let's look at an illustration of plan comparisons for health plans offered by your employer.

- Your total out-of-pocket costs = \$160 for your current (non-HSA) plan
- Your total out-of-pocket costs = \$750 for HSA plan
- Your employer contributes \$500 to your HSA plan.
- You pay 25% of premium costs – Current plan $\$7200 \times 25\% = \$1,800$
- HSA plan $\$4200 \times 25\% = \$1,050$

Your Annual Cost	Current Plan	HSA Plan
Premium	\$1,800	\$1,050
Out-of-pocket	\$160	\$750
Total cost	\$1,960	\$1,800
Your employer's contribution to HSA	N/A	\$500
Remaining cost	\$1,960	\$1,300
Estimated HSA savings		\$660

IMPORTANT: THE EXAMPLES ARE FOR ILLUSTRATIVE PURPOSES ONLY. ACTUAL RESULTS WILL VARY.

Only you can decide if a health savings account (HSA) plan is right for you and your health care needs. Speak with your health insurance professional or broker for specific information.

Notice of Disclaimer –Cathy Miller is not an attorney or health care provider and cannot provide legal or health care advice. The information provided is for your general background only, and is not intended to constitute legal or health care advice as to your specific circumstances. We recommend you review legislation with legal counsel and visit your physician for health care issues.



Simply stated health care
Keeping health care simple & informative



Cathy Miller,
Business Writer/Consultant

cathy@millercathy.com
(858) 344-9959
www.SimplyStatedBusiness.com