



Health Savings Accounts (HSAs)

In response to the rising costs of health insurance, Health Savings Accounts (HSAs) were enacted by Congress. HSAs are the latest alternative in health insurance plans and combine high-deductibles with low premiums, and allow tax-sheltered accumulation of funds to pay premiums and other medical expenses. Below is a summary on the key points of HSAs.

General

HSAs help individuals save and pay for qualified medical and retiree health expenses on a tax deductible, tax deferred, and tax-free basis.

Eligibility

Individuals not enrolled in Medicare are eligible to contribute to an HSA if they have a qualified high deductible health plan (HDHP).

- For self-only policies, a qualified health plan must have a **minimum** deductible of \$1,000 with a \$5,000 cap on out-of-pocket expenses (indexed annually).
- For family policies, a qualified health plan must have a **minimum** deductible of \$2,000 with a \$10,000 cap on out-of-pocket expenses (indexed annually).

Available qualified high deductible health plan designs will vary, but in general, all services must be subject to the deductible. Coverage for accidents, disability, dental care, vision care, and long-term care may not be subject to the deductible and the plan may still be able to be considered a qualified HDHP.

HSA Contributions

Contributions are allowed up to 100% of the health plan deductible. The maximum annual contribution is \$2,600 for self-only policies and \$5,150 for family policies (indexed annually).

Individuals age 55 to 65 may make additional "catch-up" contributions of up to \$500 in 2004, increasing annually by \$100 to \$1,000 annually in 2009 and thereafter. A married couple can make two catch-up contributions, as long as both spouses are at least 55 years of age. Catch-up contributions will help individuals accumulate assets for retiree health expenses.

Individuals, family members, and employers may make contributions.

- Contributions made by individuals and family members are tax-deductible (for the account beneficiary), even if the account beneficiary does not itemize. Employer contributions are made on a pre-tax basis and are not taxable to the employee. Employers will be allowed to offer HSAs through a cafeteria plan.

Investment earnings accrue tax-free.

Distributions

HSA distributions are tax-free if they are used to pay for qualified medical expenses, such as:

- Amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease
- Prescription drugs
- Qualified long-term care services and long-term care insurance
- Continuation coverage required by Federal law (i.e. COBRA)

Distributions made for any other purpose are subject to income tax and a 10% penalty. The 10% penalty is waived in the case of death or disability. The 10% penalty is also waived for distributions made by an individual at least 65 years of age.

Upon death, HSA ownership may transfer to the spouse on a tax-free basis.

Effective Date

Health Savings Accounts may be established as of January 1, 2004.

As always, if you have any questions or if you would like help in deciding if an HSA is right for you, please do not hesitate to call.



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