The Council for Affordable Health Insurance's

ISSUES & ANSWERS

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Answering Your Questions about Health Savings Accounts

What are Health Savings Accounts? According to America's Health Insurance Plans (AHIP), the HSA program has grown from 438,000 people covered in 2004 to 6.1 million people in 2008.

HSAs are growing in popularity due to plan design. HSAs combine a high-deductible health insurance policy (HDHP) with a savings account. The high-deductible policy protects the insured from the cost of a catastrophic illness, prolonged hospitalization or a particularly unhealthy year. The savings account is controlled by the insured and is intended to pay small and routine health care expenses. Specifically, Health Savings Accounts:

- Must be coupled with a health insurance policy with a minimum deductible of $1,100 for an individual ($1,150 for tax year 2009), with total annual out-of-pocket expenses no more than $5,600 ($5,800 for tax year 2009), or $2,200 for a family deductible, with total annual out-of-pocket expenses no more than $11,200 (for tax year 2009, the numbers are $2,300 and $11,600 respectively);
- Allowable contributions are now up to $2,900 for an individual ($3,000 for tax year 2009) or $5,800 ($5,950 for tax year 2009) for a family regardless of the policy deductible;
- Permit "catch up," or increased, contributions for individuals aged 55 and over — an additional $900 per person ($1,000 for tax year 2009 and years going forward); and
- Allow employers and individuals to contribute to the account.

We know that people want access to HSA-type plans and the uninsured choose them when buying insurance.

- For instance, HSA data released by Assurant Health indicated that:
    - ✓ 43 percent of HSA applicants had been previously uninsured;
    - ✓ 63 percent of HSA purchasers are over age 40;
    - ✓ 30 percent of purchasers have family incomes of less than $50,000;
    - ✓ 22 percent of purchasers have family incomes of less than $40,000.
- AHIP's most recent survey, as mentioned above, breaks down data by both the individual and group markets. In the individual market, 46 percent of all enrollees, including dependents covered under family plans, were aged 40 or older. Further, consumers selected HSA/HDHP products for 27 percent of their new purchases of health insurance. In the group market, over 1.8 million lives were enrolled in HSA/HDHP coverage in the small group market and almost 2.8 million lives were covered in the large group market. In the small group market, HSA/HDHP products accounted for 31 percent of new coverage issued.

How do HSAs work and what do they mean for you?

Health Savings Accounts Q & A	
Is there any restriction on who can have a Health Savings Account?	There are no income limits on HSAs (you don't have to be working or have earned income); they are available to anyone covered by a qualified high-deductible health plan.
Who is eligible?	To receive a tax deduction for contributions to the account, an individual must be covered under a qualified high-deductible health plan. The person must also be below Medicare eligibility age (65), and not covered under any other health plan which duplicates any benefits in the qualified high-deductible plan. (Exception: Individuals may maintain coverage for accidents, disability, dental care, vision care and long-term care or "permitted insurance.")
Who owns the account?	Individual/employee.
Who funds the account?	Taxpayer and/or employer. If the employer contributes to the employee's account, the contribution must be the same for all employees, and the employer receives a tax deduction as a normal business expense.
What is the tax treatment for contributions?	For tax purposes, contributions to the HSA can be made by either the employer or the individual or both. If contributions are made by the individual, it is an "above the line" tax deduction. If contributions are made by the employer, it is not taxable income to the employee (excluded from income), and the employer receives a tax deduction. Contributions to the HSA may be made by others on behalf of the individual, but the individual receives the tax deduction.
Is it a personal account? Can the employer control it?	Yes, the HSA is a personal account. No, the employer cannot control the HSA.

How is the account funded?	Contributions must be made directly into the account in cash. Contributions can be made as late as April 15 of the following year. All contributions are aggregated. Employers are allowed to make additional contributions for lower paid workers.
What type of corresponding health coverage is needed?	Qualifying high-deductible health plans must have a minimum deductible of $1,100 for individuals and $2,200 for family coverage (for tax year 2009, the amounts are $1,150 and $2,300, respectively). In 2008, total costs to the insured *cannot exceed* $5,600 for an individual and $11,200 for a family, including both the deductible and copayments (in 2009 these numbers are $5,800 and $11,600, respectively). Since the law does not specifically detail a maximum deductible, the out-of-pocket spending cap in effect becomes the maximum deductible. Thus, a plan that pays 100% of all costs above the deductible could have a 2008 deductible as high as $5,600 for an individual or $11,200 for a family (in 2009, those numbers would be $5,800 and $11,600, respectively). All amounts are indexed by law for inflation. High-deductible health plans are allowed to offer first-dollar coverage for preventive care and still qualify. Penalties for going out of the PPO network do not count toward the total costs to the insured. Employees can have a limited-purpose health FSA or HRA, a suspended HRA, a post-deductible health FSA or HRA, or a retirement HRA (see IRS Publication 969).
What constitutes preventive care?	Generally, a high-deductible health plan cannot provide benefits before the deductible is satisfied, but there is an exception for preventive care benefits. The IRS guidance issued March 30, 2004, provides a safe-harbor list of benefits that can be provided by a high-deductible health plan, generally clarifying that traditional preventive care benefits — such as annual physicals, immunizations and screening services — are preventive care for purposes of HSAs, as well as routine prenatal and well-child care, tobacco cessation programs and obesity weight-loss programs. The March 30 guidance clarifies that preventive care generally does not include treatment of existing conditions.
Are some types of health coverage permitted?	Specialty insurance including accidents, disability, dental care, vision care and long-term care plans cannot be considered qualifying high-deductible health plans. These can, however, serve as secondary insurance. IRS guidance released May 11, 2004, states that eligible individuals may continue to contribute to an HSA while also covered by the following types of employer-provided plans that reimburse medical expenses: limited purpose FSAs/HRAs that restrict reimbursements to certain permitted benefits such as vision, dental or preventive care; suspended HRAs where the employee has elected to forgo health reimbursements for the covered period; post-deductible FSAs/HRAs that only provide reimbursements after the minimum annual deductible has been satisfied; and retirement HRAs that only provide reimbursements after an employee retires. An employee is allowed a one-time rollover from an HRA or FSA as long as it is before 01/01/2012. Also allowed is one-time transfer from an IRA to an HSA. Rollovers cannot exceed the HSA contribution limit or excess contribution rules (i.e., penalty and tax) apply.
Does interest accrue?	Interest can be accrued tax free in qualified HSAs.
Is the account portable?	Yes, completely portable. Individuals own their HSA and take it when leaving employment, but the rollover must be completed within 60 days.
What is the tax treatment of distributions?	Account distributions are tax free for qualified medical expenses as defined by §213(d) of the IRC. Tax-free distributions to pay premiums for long-term care insurance, COBRA continuation, and health insurance while receiving unemployment compensation are allowed. Qualified expenses also include prescription drugs, qualified long-term care services, Medicare expenses (but not Medigap premiums), and retiree health expenses for individuals age 65 and older. Tax-free distributions may be made for medical expenses for persons covered by a high-deductible health plan, but they may also make tax-free distributions for their spouse or any dependent even if such individuals are not covered by the high-deductible health plan.
Can funds be used for non-medical expenses?	Non-medical distributions are included in gross income and therefore taxed, as well as subject to a 10% penalty. The only exception allowed is non-medical distributions for those individuals age 65 and over or who are disabled or deceased. *Those distributions are included as taxable income but are not subject to the 10% penalty.*
What is the contribution amount?	For 2008, the maximum allowable contribution to an HSA is $2,900 for individual coverage and $5,800 for family coverage (in 2009, those numbers are $3,000 and $5,950, respectively). Taxpayers allowed full-year contributions for part-year coverage. However, they must maintain a qualified high-deductible health plan for a full year beginning in the month the HSA begins or pay a tax on the contribution plus a 10% penalty.
Is there a "catch-up" contribution provision for older workers?	Catch-up contributions for individuals who are 55 or older is increased by statute — for 2008, it is $900. For 2009 and years after, it is $1,000.
Are HSAs employee welfare benefit plans?	The Department of Labor issued guidance on April 7, 2004, stating that HSAs (the savings account) generally will not constitute "employee welfare benefit plans" for purposes of the provisions of Title I of ERISA.
Who or what entity may be a trustee or custodian of HSAs?	A bank, a credit union, an insurance company, or another person who can demonstrate to the satisfaction of the secretary of HHS that the manner of such person is consistent with trustee requirements.
Are there any additional trustee or custodian responsibilities?	The secretary of Treasury may require trustees of HSAs to make reports to the secretary and the account beneficiary.

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