The Council for Affordable Health Insurance's

ISSUES & ANSWERS

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Answering Your Questions about Health Savings Accounts

A Health Savings Account (HSA) is a special, tax-free account that must be coupled with an HSA-qualified high deductible health insurance policy (HDHP). The HSA has set annual contributions (including "catch-up" contributions for people over age 55), and both the employer and individual may contribute to the HSA.

The HSA-qualified insurance 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. (For current HSA requirements please see the table below.)

We know that people want access to HSA-qualified plans, and the uninsured choose them when buying insurance. For example, a recent survey from America's Health Insurance Plans shows that HSA plans have grown from 438,000 people covered in 2004 to more than 8 million people in 2009. The survey also breaks down data for both the individual and group markets.

- Enrollment in the individual market rose from 1.5 million to 1.8 million; and 53 percent of all enrollees, including dependents covered under family plans, were aged 40 or older.
- In the group market, more than 2.4 million lives were enrolled in HSA/HDHP coverage in the small group market, and almost 3.8 million lives were covered in the large group market.
- 52 percent were male and 48 percent female.
- Monthly average premiums ranged from a high of $361 for individual coverage and $925 for family coverage in Massachusetts, to a low of $210 for individual coverage and $461 for family coverage in North Dakota.
- In the individual and large group markets, more than 85 percent of HSA/HDHP enrollees, including 76 percent of HSA/HDHP small group enrollees, were in Preferred Provider Organizations (PPOs).
- States with the highest penetration of HSA/HDHP enrollees were California (854,000), Illinois (552,000), Texas (549,000), Florida (502,000), Minnesota (477,000) and Ohio (455,000).
- Most HSA account holders live in middle and lower-middle income neighborhoods. For example, 3 percent live in neighborhoods with incomes less than $25,000 and 46 percent live in neighborhoods with incomes between $25,000 and $50,000; only 5 percent live in neighborhoods with incomes above $100,000.

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 not be enrolled in Medicare, or any other health plan that is not a high deductible health plan. (Exception: Individuals may maintain coverage for accidents, disability, dental care, vision care and long term care and certain other types of "permitted insurance.") Employees can have a limited-purpose health Flexible Savings Account (FSA) or Health Reimbursement Arrangement (HRA), a suspended HRA, a post-deductible health FSA or HRA, or a retirement HRA (see IRS Publication 969).
Who owns the account?	Individual/employee.
Who funds the account?	Individual and/or employer. If the employer contributes to the employee's account, the the employer must follow certain comparability rules or non-discrimination rules), depending on the situation. In general, employers are allowed to make additional contributions for lower-paid workers. All employer contributions are deductible by the company 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, the contribution is deductible on the account holder's personal income tax return. If contributions are made by the employer, it is not taxable income to the employee (excluded from income). Contributions to the HSA may be made by others on behalf of the individual, but the account holder 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. An employee is allowed a one-time transfer from an IRA to an HSA. Rollovers cannot exceed the HSA contribution limit for the year or excess-contribution rules apply.
What type of corresponding health coverage is needed?	"HSA-qualified" high deductible health plans in 2009 must have a minimum deductible of $1,150 for individuals and $2,300 for family coverage (for tax year 2010, the amounts are $1,200 and $2,400, respectively). In 2009, total out-of-pocket costs, including deductibles, coinsurance and copayments, for covered benefits under the plan *cannot exceed* $5,800 for an individual and $11,600 for a family (in 2010 these numbers are $5,950 and $11,900, 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 percent of all costs above the deductible could have a 2009 deductible as high as $5,800 for an individual or $11,600 for a family (in 2010, those numbers will be $5,950 and $11,900, 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. Plans may charge higher out-of-pocket costs and impose higher deductibles for medical care obtained from out-of-network providers.
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. In general, traditional preventive care benefits — such as annual physicals, immunizations and screening services — are preventive care for purposes of HSAs. Also included are routine prenatal and well-child care, tobacco cessation programs and obesity weight-loss programs. In the eyes of the IRS, preventive care generally does not include treatment of existing conditions.
Are some types of health coverage permitted?	HSA account holders are permitted to have coverage under certain types of insurance for things such as accidents, disability, hospitalizations, dental care, vision care and long term care. Individuals may also have employer-provided plans that reimburse out-of-pocket medical expenses, but only if they are one of the following types: (1) limited purpose FSAs/HRAs that restrict reimbursements to certain permitted benefits such as vision, dental or preventive care; (2) "post-deductible" FSAs/HRAs that only provide reimbursements after the minimum HSA-qualified plan annual deductible amount has been satisfied; and/or (3) retirement HRAs that only provide reimbursements after an employee retires.
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 with them when leaving employment.
What is the tax treatment of distributions?	Account distributions are tax-free for qualified medical expenses as defined by §213(d) of the Internal Revenue Code. 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 also be used to pay premiums for long term care insurance, COBRA continuation coverage, and health insurance while receiving unemployment compensation. Tax-free distributions may be taken for medical expenses for persons covered by the high deductible health plan, as well as 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 income as well as subject to a 10 percent 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 percent penalty.
What is the contribution amount?	For 2009, the maximum allowable contribution to an HSA is $3,000 for individual coverage and $5,950 for family coverage (in 2010, those numbers are $3,050 and $6,150, respectively). Taxpayers are allowed full-year contributions even if their HSA-qualified plan coverage begins after January 1 (but not later than December 1). However, they must maintain an HSA-qualified high deductible health plan for the next calendar year or pay income tax on part of the contribution plus a 10 percent penalty.
Is there a "catch-up" contribution provision for older workers?	Catch-up contributions for individuals who are 55 or older are $1,000 per year.
Are HSAs employee welfare benefit plans?	The Department of Labor issued guidance on April 7, 2004, stating that HSAs (the savings account) generally do 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?	HSA accounts may be opened at banks, credit unions, and with insurance companies. Other entities may apply to the IRS to be approved to open HSA accounts.
Are there any additional trustee or custodian responsibilities?	Trustees and custodians of HSAs must report annually to the IRS and to the account holder the total contributions and withdrawals from the account, and the year-end balance in the account.

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