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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 contribution limits and both the employer and individual may contribute to the HSA.

The HSA-qualified insurance plan and health savings account work hand-in-glove. The HSA-qualified plan protects the insured from the cost of a catastrophic illness, prolonged hospitalization or a particularly unhealthy year. The savings account, controlled by the account holder, pays for small and routine health care expenses. (For current HSA requirements and frequently asked questions please see the table on page 2.)

We know that people want access to HSA-qualified plans, and more and more Americans are choosing them when buying insurance. For example, a recent survey from America's Health Insurance Plans (AHIP) shows that HSA plans have grown from 438,000 people covered in 2004 to more than 11.4 million in 2011. And insurers have worked to give consumers the tools to manage their own health care. AHIP reports that over 85 percent of insurance company respondents reported that they offered consumer decision support tools for their members such as: online member access to health savings account information; health education information; physician-specific information; and, personal health records. The survey also breaks down data for both the individual and group markets:

- As of January 2011, about 11.4 million people were covered by HSA-qualified plans, an increase of 14 percent since the previous year.
- In the group market, enrollment rose to 9.1 million in 2011 up from 8.0 million in January 2010. Enrollment in the individual market rose to 2.4 million in 2011 up from 2.1 million in January 2010.
- HSAs/HDHPs accounted for ten percent of all new health insurance purchases in 2011.

- States with the highest levels of HSA/HDHP enrollment were California (1,073,319), Texas (844,832), Ohio (728,868), Illinois (575,000) and Florida (656,243).
- States with the highest penetration by HSAs/HDHPs in their private market were Minnesota (14.9 percent), Vermont (11.4 percent), Colorado (11.3 percent), Michigan (10.8 percent), and Montana (10.8 percent).

Studies consistently show that both employers and individuals want and choose consumer-driven health plans like HSAs and benefit from them. For example, in March 2011, Aetna announced results from an eight-year study of health care claims and utilization for its 2.3 million Aetna HealthFund consumer-driven plan members. The study showed sustained savings for employers over a five-year period, with members getting the care they needed. The results demonstrated that Aetna HealthFund members sought increased levels of chronic and preventive care, used generic drugs more often and accessed online tools and information at higher rates than PPO members, while they experienced lower annualized medical cost increases. Further, the study results showed that HealthFund members had lower emergency room use than PPO members, suggesting that members became better informed about where to access health care. Other key findings:

- For companies offering only HRA and HSA plans (i.e., "full replacement"), employers saved \$21.5 million per 10,000 members over the five-year period.
- For employers who offered Aetna HealthFund plans as an option, they experienced savings of \$9 million per 10,000 members over the five-year period.

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?	Dependent children cannot have their own HSAs. For adults, HSAs are available to anyone covered by a qualified high deductible health plan (HDHP). There are no income limits for HSAs, and you don't have to be working or have earned income to qualify.
Who is eligible?	Individuals must be covered under an HSA-qualified high deductible health plan and not have any other health plan that is not a high deductible health plan, such as Medicare, Medicaid, Tricare, and private health plans with low deductibles (e.g., HMOs). Individuals may maintain coverage for accidents, disability, dental care, vision care and long-term care, and certain other types of "permitted insurance."
Who owns the account?	Individual/employee.
Who funds the account?	Individual and/or employer.
What is the tax treatment for contributions?	Contributions made by individuals/employees outside of work are deductible on one's personal income tax return. Contributions made by employers and by employees through payroll deduction are not taxable wages to the employee (excluded from income and payroll taxes). Employer contributions are also deductible as a business expense for the company.
Is it a personal account? Can the employer control it?	Yes, the HSA is a personal account. No, the employer cannot control the HSA.
What is the maximum contribution amount?	For 2011, the HSA maximum allowable contribution is \$3,050 for individuals with self-only coverage and \$6,150 for individuals with family coverage. In 2012, those numbers increase to \$3,100 and \$6,250 respectively. Individuals age 55 or older may contribute an additional \$1,000 yearly.
What are the requirements that make a high deductible health plan "HSA-qualified?"	<p>HSA-qualified high deductible health plans must:</p> <ol style="list-style-type: none"> 1. Apply a minimum deductible of \$1,200 for individuals and \$2,400 for family coverage (applies for 2011 and 2012). 2. Apply the minimum deductible to all benefits (including prescription drugs) covered under the plan. 3. Cover preventive care without applying the deductible or other cost-sharing amounts. 4. Limit annual total out-of-pocket costs, including deductibles, coinsurance and copayments (but not premiums), for covered benefits under the plan. For 2011, these limits cannot exceed \$5,950 for an individual and \$11,900 for a family. For 2012, these amounts will increase to \$6,050 and \$12,100. Plans may charge higher out-of-pocket costs and impose higher deductibles for medical care obtained from out-of-network providers. <p>All amounts are indexed annually for inflation.</p>
What constitutes preventive care?	Under the new health reform law, all health plans must cover specific preventive services identified by the federal government without any out-of-pocket expense applied. In general, this includes benefits such as annual physicals, immunizations, routine prenatal and well-child care, and screening services. In the eyes of the IRS, preventive care generally does not include treatment of existing conditions.

<p>Are some types of health coverage permitted?</p>	<p>HSA account holders are permitted to have health 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:</p> <ol style="list-style-type: none"> 1. Limited-purpose FSAs/HRAs that restrict reimbursements to vision, dental and/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.
<p>Does interest accrue?</p>	<p>Interest earnings can accrue tax-free.</p>
<p>Is the account portable?</p>	<p>Yes, completely portable. Individuals own their HSA and take it with them when leaving employment.</p>
<p>What is the tax treatment of distributions?</p>	<p>Account withdrawals are tax-free for qualified medical expenses as defined by the Internal Revenue Code (see also IRS Publication 502). In addition, HSA funds may be used tax-free for COBRA coverage premiums, qualified long-term care services and insurance, Medicare premiums (except Medigap premiums) and out-of-pocket expenses, and health insurance premiums while receiving unemployment compensation. Tax-free withdrawals may pay for qualified expenses for a spouse or dependents, even if such individuals are not covered by the HDHP.</p>
<p>Can funds be used for non-medical expenses?</p>	<p>Withdrawals used for purposes other than qualified medical expenses must be included (i.e., taxable) as gross income, plus are subject to a 20 percent penalty. For individuals age 65 and over or who are disabled, no penalty applies.</p>
<p>How are unused balances treated?</p>	<p>Unused funds roll over automatically tax-free every year.</p>
<p>Is there a “catch-up” contribution provision for older workers?</p>	<p>Yes, \$1,000 per year for individuals who are 55 or older.</p>
<p>Are HSAs employee welfare benefit plans?</p>	<p>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.</p>
<p>Who or what entity may be a trustee or custodian of HSAs?</p>	<p>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.</p>
<p>Are there any additional trustee or custodian responsibilities?</p>	<p>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.</p>