



Family Health Budget

Overview of Health Savings Accounts

All About HSAs

From FamilyHealthBudget.com

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Health Savings Account Toolkit

Seven fast facts about the Health Savings Account (HSA)

1. HSA money is federal tax-free forever. You never pay taxes on HSA money – when it's deposited, as it grows, or when it's used – as long as you contribute within IRS rules and spend the money on eligible expenses
2. To contribute to an HSA, you need to have a High Deductible Health Plan and meet other eligibility rules.
3. You, your employer, and anyone else can put money in your HSA.
4. The maximum yearly HSA contribution is based on your health plan deductible and other regulations.
5. You can spend HSA money tax-free on IRS-approved expenses, such as medical, dental, pharmacy, and vision costs.
6. If you don't spend all your HSA money during the plan year, the money stays in your account – you may even invest unused money in mutual funds.
7. If you leave your current employer, you can keep all the money in your account – including any money your employer put in.

HSA Basics

How it works

The Health Savings Account – HSA for short – is designed to help you build tax-free savings for health care throughout your lifetime. You, your employer, or anyone else can put money in the account. Money contributed through payroll deductions at work goes in tax-free, earns interest tax-free, and can be used tax-free for IRS-approved expenses. If you're not employed, you can deduct the amount you put in when you do your taxes. The account is in your name, just like your personal checking or savings account, so you can take the money with you if you change jobs – even money your employer adds

HSA advantages

The HSA gives you control over how you save, invest, and use your health care dollars:

- **It saves you money on taxes.** You don't pay federal taxes on HSA dollars, and most states also exempt these funds from taxes. If your employer sponsors the account, money you deposit comes out of your paycheck before it's taxed. Money you save earns interest tax-free. And as long as you use the HSA for approved items, you can spend the money tax-free. By using tax-free money – in-

stead of your take-home pay, which you pay taxes on – you’re essentially getting a discount every time you use your HSA for approved items.

- **It’s portable.** The HSA is in your name. Money in your account, including any your employer puts in, goes with you no matter where you work. It’s yours when you retire or even if you just take a break from working for a while. As long as you’re covered by a High Deductible Health Plan and meet the other eligibility rules, you can continue to add money to the account. And if you’re no longer covered by a High Deductible Health Plan, you can still use the money for your health care expenses.
- **Your account can build over time.** Dollars you don’t use stay in your account, allowing you to build up your health care savings. And you can even invest the money and earn interest on it, without having to pay taxes on the earnings. (You may have to pay fees, as you do when investing 401(k) dollars.) As long as your yearly contribution doesn’t go over the allowed limit, the money goes in and grows tax-free.
- **Your account covers costs beyond your health plan.** You can use your HSA to pay out-of-pocket costs specified in your plan, like expenses before you meet your deductible. It also covers other eligible medical expenses like vision care, dental services, and even long-term care insurance.

Sounds great! Where do I sign up?

If you get your benefits through work, and the HSA isn’t an option already, it may be soon – many employers are seeing the advantages for themselves and for employees. If you’re self-employed or between jobs, you can get an HSA through an insurance company, bank, or other IRS-approved HSA trustee.

Before you sign up, make sure you’re eligible. First of all, to *contribute* to an HSA, you have to enroll in a High Deductible Health Plan – that’s an IRS name for a certain kind of plan. Also, you cannot have an HSA if any of the following is true:

- You are covered by other insurance that pays for medical services, such as coverage under a spouse’s plan. This includes medical plans, Flexible Spending Accounts (FSAs), and Health Reimbursement Arrangements. So if your spouse has a comprehensive FSA (one that covers more than a “limited purpose” like vision and dental) or medical coverage that isn’t an IRS-approved high-deductible plan, you’re not eligible for an HSA – even if the spouse’s plan or FSA isn’t used for you.
- You are enrolled for Medicare benefits. Neither you nor your employer can put money in an HSA once you’re enrolled in Medicare – but you can spend money you’ve rolled over from past years.
- You are claimed as a dependent on another person’s tax return. For tax purposes, spouses aren’t considered dependents.

And there is a limit on how much you can put in the account. If you’re under age 55, the maximum HSA contribution – from you, your employer, and anyone else – can’t exceed your deductible or the maximum amount allowed by Uncle Sam...whichever is less. However, if you’re age 55 or older, you can put away a little more by making “catch-up” contributions.

Frequently Asked Questions

HSA eligibility

Can I be covered by a High Deductible Health Plan *and* another health plan and still be eligible for an HSA?

As long as both health plans are High Deductible Health Plans, you are eligible for an HSA.

What other types of health coverage can I have and still have an HSA?

You can have an HSA and High Deductible Health Plan if you have one or more of these types of coverage:

- Insurance under which most of the coverage relates to workers' compensation laws, lawsuits, property ownership or use of property (such as automobile insurance)
- Insurance for a specified disease or illness, like a cancer policy
- Insurance paying a fixed amount per day (or other period) of hospitalization
- Coverage (whether through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care
- Employee assistance program, disease management, or wellness programs
- Drug discount cards
- Eligibility for VA benefits unless you have received VA health benefits in the last three months. You can have a health care discount card.

HSA contributions

How much can I contribute to an HSA?

The maximum amount you can contribute to an HSA in any year is the lower of the High Deductible Health Plan's annual deductible or the amount established by the IRS for each year for single or family coverage. The IRS amounts for 2005 are \$2,650 for individual coverage and \$5,250 for family coverage, whichever is less. You should check with your legal or tax advisor for your current year limit. The same annual contribution limit applies whether an employee, an employer, or anyone else makes the contributions. The maximum contribution is prorated based on actual eligibility (the number of months in the calendar year you're covered by a High Deductible Health Plan).

When can I make "catch-up" contributions to an HSA?

If you are age 55 and older, or turning 55 during the calendar year, you can make additional "catch-up" contributions to your HSA. The "catch-up" contribution maximum is \$600 for 2005. The "catch-up" amount increases by \$100 each year until 2009, when it's capped at \$1,000. As with the annual contribution limit, the catch-up contribution is prorated based on eligibility.

Do I have to contribute to the HSA to receive my employer's contribution?

No, if your employer is contributing, you should automatically receive this contribution by enrolling in the HSA and High Deductible Health Plan.

Do I have to contribute through payroll deductions at work?

No, you can also contribute by check or through direct deposit. If you contribute after-tax money this way, you can deduct the amount you put in when you do your taxes.

What happens if I contribute more than the limit?

The IRS imposes a penalty on excess contributions. Also, you have to pay tax on the interest earned on those excess funds. Rollover contributions from another HSA or Archer Medical Savings Account (MSA) don't count when determining if you've made an excess contribution.

Contributions made during any year when you're not eligible to contribute are also considered excess contributions. To avoid tax penalties, make sure you don't contribute to your HSA before the effective date of your High Deductible Health Plan.

Spending HSA money

What's an eligible expense?

HSA funds can be used tax-free for IRS-approved expenses like:

- Diabetic supplies
- Eye exams, eyeglasses, contact lenses and solution, and laser surgery
- Hearing aids
- Orthodontia, dental cleanings, and fillings
- Over-the-counter medicines and prescription drugs
- Physical therapy, speech therapy, and chiropractic expenses
- Specialized equipment and devices for disabled persons
- Transportation expenses related to medical care
- Weight reduction programs for physician-diagnosed obesity

Does all the money I contribute need to be in my HSA before I can use it?

You don't have to wait until all the money is deposited, but you can withdraw only funds that are actually in the account (unlike an FSA, where you can use the entire amount at the beginning of the plan year).

What if my health expense is more than the amount in my HSA?

If your expense is more than the current balance of your HSA, you need to pay the remaining cost another way. Then, once more funds are added to your HSA, you can file a claim form for reimbursement.

What happens when my HSA funds are gone?

Once you use up your HSA funds, you are responsible for medical expenses until you reach your deductible. Then you pay your coinsurance percentage. If you reach your maximum out-of-pocket, the plan pays 100 percent for covered services.

What if I don't use all of the money in my HSA during the plan year?

The funds carry over to the next year and continue to accrue interest. You never have to worry about losing the funds.

Who makes sure my expenses are eligible?

You're responsible for complying with HSA spending regulations. The IRS may ask you to prove an expense is eligible, so always save itemized receipts when you spend HSA money.

What if I use the HSA for ineligible expenses?

If you use HSA funds for an ineligible expense, you'll pay tax on the ineligible amount and any interest earned on the amount. Check with your tax advisor for specific advice on handling this situation.

Investing HSA money

How do I earn money on my HSA?

Think of your HSA as two accounts. First and foremost, the HSA is an interest-bearing savings account that allows you to save pre-tax money for health care costs – and have easy access to the money when you need it for eligible expenses. All contributions to your account go into this savings account. Then, once you build your account to a certain level, you'll have the opportunity to put some of your unused funds in an investment account. Investing your HSA money is completely optional.

Whether you invest your money or leave it all in the savings account, you may have account fees, as with any other bank account. To avoid overdrafts, make sure you have enough in your account to cover any fees.

What are the minimum balance requirements?

The minimum varies depending on your HSA trustee. For example, you may have to wait until you have \$2,000 in your account – \$1,000 in your HSA *plus* the minimum initial investment amount of \$1,000. If you're thinking about investing HSA money, remember that you can transfer money from the investment account back to the savings account – but it could take a few days, so it's smart to leave enough money in your account to cover potential medical expenses.

Other Questions

Do I need to file any forms with my taxes at year-end?

Yes. Your HSA trustee will send the necessary forms, along with filing instructions, after each calendar year.

What if I have a life change, like getting married or having a child?

Talk to your local human resources representative. These events may affect your High Deductible Health Plan coverage and contribution limit.

What happens if I change jobs?

- If your new employer offers a High Deductible Health Plan, you can leave your HSA funds where they are or roll them into a different account through another HSA provider.
- If you stop participating in a High Deductible Health Plan, you can continue to spend any remaining funds to pay for qualified medical expenses, and you will continue to earn interest on your balance, but you can't put new money in the HSA.

Sample Budgets with HSAs

Lucy – age 57, single with grown children, self-employed

Lucy chooses a High Deductible Health Plan with a \$1,500 deductible. The plan has 80 percent coinsurance after the deductible – which means Lucy pays the first \$1,500 of her health care costs, and then her health plan kicks in to cover 80 percent of her covered expenses. The IRS allows Lucy to put \$2,100 in her HSA – \$1,500 to cover her deductible, plus the \$600 catch-up contribution for people age 55 or older. At the beginning of the year, Lucy sends a check to the bank that manages her HSA; she can deduct the amount of her contribution when she files her taxes.

Lucy’s health care costs are higher than usual because she breaks her leg. Not including premiums, her expenses for the year total \$2,033:

Category	Lucy’s Expenses
Medical <ul style="list-style-type: none"> • Hospital doctor’s services – \$650 • Hospital facility cost – \$350 • X-rays at hospital – \$200 • Specialist office visit – \$315 • Six physical therapy sessions – \$1,050 <i>Because Lucy meets her deductible, insurance pays part of these expenses</i>	\$1,743
Prescriptions <ul style="list-style-type: none"> • Two prescriptions – \$150 	\$150
Over-the-counter Medicines <ul style="list-style-type: none"> • None 	\$0
Dental <ul style="list-style-type: none"> • None 	\$0
Vision <ul style="list-style-type: none"> • Eyeglasses 	\$140
Medical Equipment and Other <ul style="list-style-type: none"> • None 	\$0
TOTAL HEALTH CARE COSTS (NOT INCLUDING PREMIUMS)	\$2,033

By putting away tax-free money, Lucy cuts \$375 from her federal tax bill, and she also earns interest on the money in her account. After using her HSA to meet her \$1,500 deductible, Lucy has enough money left in her HSA to pay her \$243 coinsurance with tax-free money, too. She also uses HSA money to buy new glasses. The remaining \$217 stays in her Health Savings Account. By putting away tax-free money, Lucy saves about 25 percent – or \$375 – and she also earns interest on the money in her account.

This example is for illustration only. The amounts will vary, depending on the plan selected, the number of people covered, and other factors.

Doug – age 36, married with two children, health coverage through employer

Doug chooses a High Deductible Health Plan that covers himself, his wife Tina, and their two children – four-year-old John and newborn Julie. The plan’s \$2,500 deductible doesn’t exceed the IRS-allowed limit, so Doug and his employer can put up to \$2,500 in the HSA. Doug’s employer contributes \$500, and Doug adds another \$2,000 in tax-free payroll deductions.

Julie has two well-baby doctor’s visits during the plan year. Also, John gets sick during the year and spreads it to the rest of the family; Doug and John need a prescription to treat the illness, and John also gets some lab tests. Not including premiums, the family’s expenses for the year total \$1,075:

Category	Doug’s Expenses
Medical <ul style="list-style-type: none">• Six doctor’s office visits – \$600• Lab tests – \$100	\$700
Prescriptions <ul style="list-style-type: none">• Three prescriptions– \$375	\$375
Over-the-counter Medicines <ul style="list-style-type: none">• None	\$0
Dental <ul style="list-style-type: none">• None	\$0
Vision <ul style="list-style-type: none">• None	\$0
Medical Equipment and Other <ul style="list-style-type: none">• None	\$0
TOTAL HEALTH CARE COSTS (NOT INCLUDING PREMIUMS)	\$1075

By putting away tax-free money, Doug trims the family’s federal tax bill by about \$500 – and he even earns interest on the money in his account. Because the family’s health care expenses are only \$1,075, they don’t use all of the HSA money contributed. Doug spends his employer’s \$500 contribution, plus \$575 of the money he put in tax-free. At the end of the year, he’s spent none of his take-home pay on out-of-pocket costs, and he still has \$1,425 left in the account.

This example is for illustration only. The amounts will vary, depending on the plan selected, the number of people covered, and other factors.

Brad – age 22, single, health coverage through employer

Brad starts his new job on July 1, which is halfway through his employer’s plan year. He chooses a High Deductible Health Plan with a \$2,500 deductible. Because Brad has HDHP coverage for only half the year, his maximum HSA contribution is prorated to \$1,250, and his employer contribution is prorated to \$250. That means Brad can put another \$1,000 in his account. However, Brad’s on a tight budget and isn’t expecting many health care expenses, so he decides to set aside \$500 through paycheck deductions – for a total of \$750 in his HSA.

Brad is in good health – other than seasonal allergies – so his health care expenses are relatively low. Not including premiums, his expenses from July through December total \$400:

Category	Brad’s Expenses
Medical • None	\$0
Prescriptions • None	\$0
Over-the-counter Medicines • Allergy medicine – \$175	\$175
Dental • None	\$0
Vision • Eye doctor’s appointment – \$75 • Contact lenses – \$150	\$225
Medical Equipment and Other • None	\$0
TOTAL HEALTH CARE COSTS (NOT INCLUDING PREMIUMS)	\$400

By putting away tax-free money, Brad saves about \$125 on his federal taxes, and he also earns interest on the money in his account. Because Brad’s health care expenses are only \$400, he doesn’t use all of the HSA money contributed. He spends his employer’s \$250 contribution, plus \$150 of the money he put in tax-free. At the end of the year, he’s spent none of his take-home pay on out-of-pocket costs, and he still has \$350 left in the account.

This example is for illustration only. The amounts will vary, depending on the plan selected, the number of people covered, and other factors.

Add up Your HSA Savings

Virtually anyone can reduce out-of-pocket expenses with a Health Savings Account. Use the worksheet below to estimate your savings. Or, for a more personalized calculation, go to the HSA Calculator on FamilyHealthBudget.com to add up your savings online.

First, add up your HSA-eligible expenses

Category	Expected Yearly Cost
Medical (Office visits, X-rays, lab tests, etc.)	
Prescriptions (Out-of-pocket prescription drug costs)	
Over-the-counter Medications (Allergy medicines, smoking cessation products, at-home screening tests, contact lens solution, etc.)	
Dental (Exams, cleanings, braces, crowns, fillings, X-rays, etc.)	
Vision (Eye exams, glasses, contacts, laser surgery, etc.)	
Medical Equipment and Other (Testing devices, syringes, crutches, other durable medical equipment, etc.)	
TOTAL	

Now calculate your current-year tax savings and potential long-term savings

Category	Expected Yearly Cost
Your HSA contribution We recommend that you contribute roughly 120% of your total out-of-pocket expenses to cover your current needs and save for the future. But remember, you can't contribute more than the IRS-allowed limit. Multiply by estimated tax rate	
ESTIMATED TAX SAVINGS	x.25 *

* Estimated tax savings based on federal and FICA taxes you don't have to pay on payroll deductions used to fund your account. Actual savings may vary. Consult your legal or tax advisor about your personal situation.