

What is a Health Savings Account?

When combined with a high deductible health plan, a Health Savings Account (HSA) is an alternative to traditional health insurance. An HSA is a tax-advantaged savings product that offers a different way for you to pay for your health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

You must be covered by a high deductible health plan (HDHP) to take advantage of HSAs. An HDHP generally costs less than traditional health care coverage and the money saved on insurance can be put into the HSA.

You own and control the money in your HSA. Decisions on how to spend the money are made by you.

What Is a High Deductible Health Plan?

A high deductible health plan (HDHP) is required to open an HSA. Sometimes referred to as a “catastrophic” health insurance plan, an HDHP is a less expensive health insurance plan that usually doesn’t pay for the first several thousand dollars of health care expenses (i.e., the “deductible”) but will generally provide coverage after that. Of course, the HSA is available to help pay for the expenses that your insurance plan does not cover.

To contribute to an HSA for 2011, you must be covered by an HDHP with a deductible of at least \$1,200 (self-only coverage) or \$2,400 (family coverage). The annual out-of-pocket (including deductibles and co-pays) for 2010 cannot exceed \$5,950 (self-only coverage) or \$11,900 (family coverage). HDHPs can have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and co-pays & coinsurance) for non-network services.

Who is eligible for an HSA?

In order to contribute to an HSA, you must be covered by an HSA-qualified HDHP and cannot be covered by other health insurance that is not an HDHP. Certain types of insurance are not considered “health insurance” (see below) and will not jeopardize eligibility for an HSA.

Can I get an HSA even if I have other insurance that pays medical bills?

You are only allowed to have auto, dental, vision, disability and long-term care insurance at the same time as an HDHP. You may also have coverage for a specific disease or illness as long as it pays a specific dollar amount when the policy is triggered. Wellness programs offered by your employer are also permitted if they do not pay significant medical benefits.

Is health insurance required to contribute to an HSA?

Yes. You cannot establish and contribute to an HSA unless you have coverage under an HDHP.

If I’m covered by Medicare, can I contribute to an HSA?

No. If you are covered by Medicare, you cannot contribute to an HSA. But you can use the assets in an HSA to pay medical expenses after you enroll in Medicare.

If I’m eligible for VA medical care, can I contribute to an HSA?

You cannot contribute to an HSA during the three months after receiving health benefits from the Veterans Administration or one of its facilities, including prescription drugs. But mere eligibility to receive VA medical care does not affect HSA eligibility.

What is the maximum HSA contribution?

If you are eligible to make HSA contributions for all of 2011, you can make contributions of up to \$3,050 if you’re covered by a single coverage HDHP, or \$6,150 if you have a family coverage HDHP. If you and your spouse share a family coverage HDHP, you can divide the \$6,150 limit between you. This maximum must be reduced by any employer contributions to the HSA.

Your eligibility to make HSA contributions is determined as of the first day of the month. If you are eligible to make HSA contributions as of the first day of the last month of the year (December 1 for a calendar year taxpayer), then you are eligible to contribute for the entire year.

In all other situations, if you meet the eligibility tests for only some of the months in a year, you generally have a reduced HSA contribution limit for that year, based on the number of months of eligibility.

Do HSA contributions have to be made in equal amounts each month?

No. Contributions can be made in a lump sum, or in any amount or frequency you wish. The contribution deadline for a year is the tax-filing deadline for that year, typically April 15 of the following year.

Can I roll over an IRA into an HSA?

Yes. You can use a one-time direct rollover from a traditional or Roth IRA to an HSA to make HSA contributions that could otherwise be made for the year. The amount rolled over to the HSA is treated as coming out of the portion that would be taxable income if distributed to you, and you do not receive a deduction for such a contribution. Other types of retirement plans cannot be used to make HSA contributions.

If I'm over age 55, can I make "catch-up" contributions to my HSA as I can with IRAs?

Yes, if you are age 55 or older and meet the HSA eligibility tests, you can make additional "catch-up" contributions. The additional allowed "catch-up" contributions for 2011 are \$1,000 for self-only and \$1,000 for family coverage.

Do HSA contributions provide any tax benefits?

Personal contributions offer an "above-the-line" deduction. An "above-the-line" deduction allows you to reduce taxable income by the amount you contribute to an HSA. You do not have to itemize deductions to claim this tax benefit. You receive this deduction even for contributions made by family or friends.