KeyPoint Financial Services
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Understanding Health Savings Accounts

Health savings accounts (HSAs) are tax-preferred savings accounts set up in conjunction with high-deductible health insurance policies that are used to fund qualified medical expenses. Enrollees or their employers make tax-free contributions to an HSA, then use the funds typically to purchase medical care until they reach their deductibles. But HSAs are not for everyone and it helps to fully understand how they work before considering them as a viable option to help fund your health care costs.

Anyone considering a high-deductible health insurance policy should consider coupling it with a health savings account. Health Savings Accounts (HSAs) permit enrollees or their employers to make tax-free contributions to an HSA, then use the funds to purchase medical care until they reach their deductibles. Coupled with a high-deductible plan, an HSA can save you in premiums as well as taxes.

HSA Specifics

You are eligible for an HSA if you meet four qualifying criteria:

- You are enrolled in a qualified high-deductible health insurance plan (HDHP).
- You are not covered by another disqualifying health plan (whether insurance or an uninsured health plan).
- You are not enrolled in Medicare.
- You are not a dependent of another person for tax purposes.

You must meet all four of these criteria to qualify.

HSAs are generally available through insurance companies that offer HDHPs. Many employer-sponsored health care plans also offer HSA options. Although most major insurance companies and large employers now offer an HSA option under their health plan, it's important to remember that most health insurance policies are *not* considered HSA-qualified HDHPs. In fact, the IRS has set limits as to what qualifies as an HDHP. For 2013, a plan can only be considered an HDHP if its deductible is at least $1,250 ($2,500 family). So make sure to check with your insurance company or employer to see if an HSA plan option might apply.

The maximum contribution to an HSA for 2013 is $3,250 if you have single coverage, or $6,450 if you have family coverage. If you are over age 55 then you can contribute an additional $1,000 in 2013 regardless of whether you have single or family coverage. Such contributions are made on a before-tax basis, meaning they reduce your taxable income. Note that unlike IRAs and certain other tax-deferred investment vehicles, no income limits apply to HSAs.

HSAs offer investment options that differ from plan to plan, depending upon the provider. What's more, HSA account balances carry over from year to year, unlike their predecessors, Medical Savings Accounts (MSAs), which contained a "use it or lose it" feature that severely limited their usefulness for most people. Earnings on HSAs are not subject to income taxes.

Any ordinary medical, dental, or health care expense that would qualify as a tax-deductible item under IRS rules can be covered by a HSA. A doctor's bill, dental procedures, and most prescriptions are examples of covered items. See IRS Publication 502 for a definitive guide of what costs are covered. If funds are withdrawn for any other purpose than qualifying health care expenses, however, you will be required to pay taxes on amounts withdrawn plus a 10% penalty.

In summary, HSAs can offer significant benefits for some situations, but may not fit your specific needs.

The Pros and Cons of HSAs

Pros

- HSAs offer a significant annual tax deduction on contributions up to $6,450 in 2013 for an individual over 55 who opts for family coverage -- making them particularly appealing to individuals in higher tax brackets.
- Withdrawals for qualifying health care costs (including long-term care insurance) are tax free.
- Investment income in HSAs is also tax free.

Cons

- Since HSAs must be tied to HDHPs, their ultimate savings must be weighed against how such plans stack up against more traditional plans, which may offer significantly better coverage.
- HSAs may not offer the flexibility and transportability that today's mobile American family requires, especially given that health care plan offerings differ significantly from employer to employer and many smaller institutions have yet to offer an HSA option.

For more information on HSAs, see the U.S. Treasury's HSA Resource Center.

Points of Interest

1. Health Savings Accounts (HSAs) are tax-preferred savings accounts set up in conjunction with high-deductible health insurance policies that are used to fund qualified medical expenses.
2. You must be enrolled in a qualified high-deductible health insurance plan to qualify for an HSA.
3. To qualify as a high-deductible plan, the IRS requires that the deductible be at least $1,200 ($2,400 family) in 2012.
4. The maximum contribution to an HSA for 2013 is $3,250 if you have single coverage, or $6,450 if you have family coverage. If you are over age 55 then you can contribute an additional $1,000 in 2013 regardless of whether you have single or family coverage.
5. Any ordinary medical, dental, or health care expense that would qualify as a tax-deductible item under IRS rules can be covered by a HSA -- including long-term care insurance premiums.