



# Health Savings Accounts

A Health Savings Account combines a qualified high deductible health insurance plan with a tax-favored savings account. Money in the savings account is invested and is used currently or in the future to pay for medical costs that are not covered by the insurance plan. Contributions, earnings and distributions are exempt from federal income and Social Security (FICA) taxes when used to pay for qualified medical expenses.

## **Advantages of a Health Savings Account:**

- Contributions to the HSA are 100% deductible (up to the legal limit which changes annually)
- Withdrawals to pay qualified medical expenses, including dental and vision, are never taxed.
- Interest earnings accumulate tax-deferred, and if used to pay qualified medical expenses, are tax-free.
- Unlike a flexible spending account (FSA), unused HSA money isn't forfeited at year end; it continues to grow tax-deferred.

## **Eligibility for a Health Savings Account:**

- The employee must be enrolled in a federally qualified High Deductible Plan.
- The employee must be under age 65 and cannot be enrolled in Medicare.
- The employee cannot be claimed as a dependent on another individual's tax return.
- The high-deductible insurance plan must be the employee's only health insurance. However, dental, vision, disability and long-term care insurance does not disqualify someone from having an HSA.

Before age 65, if funds are withdrawn for non-medical expenses, they are subject to both income tax and an added 20% penalty tax. After age 65, funds withdrawn for non-medical expenses are subject to income tax but the penalty tax does not apply. Funds can also remain tax free if used for qualified long-term care insurance and to pay Medicare premiums.

Money employees contribute to the HSA (up to the legal limits for that year) are tax deductible when taxes are filed. Employers can also make contributions but the total employer contribution plus employee contribution still must be within the contribution limits.

## **Web links for more information on Health Savings Accounts:**

<http://www.guidestoneinsurance.org/FormsandFAQ/FAQs/HsAsHRAsFSAs>

[https://www.highmarkbcbs-hsa.com/contentdocs/HSA\\_BCBS/A1.WhatIsAnHSA.html](https://www.highmarkbcbs-hsa.com/contentdocs/HSA_BCBS/A1.WhatIsAnHSA.html)

[http://en.wikipedia.org/wiki/Health\\_savings\\_account](http://en.wikipedia.org/wiki/Health_savings_account)