



CHC is a regional health benefits purchasing cooperative for small businesses, organizations, and the self-employed in Ashland, Barron, Bayfield, Burnett, Chippewa, Clark, Douglas, Dunn, Eau Claire, Pepin, Pierce, Polk, Price, Rusk, St. Croix, Sawyer, and Washburn counties.

# The Basics of Health Savings Accounts (HSAs)

## What exactly is a Health Savings Account (HSA)?

It's a savings and spending account that offers members a tax-advantaged way to pay for qualified medical expenses as well as a way to save for future medical and retirement health care expenses that won't be subject to Federal tax. After the age of 65, money can be withdrawn from the account for any purpose with no tax penalty, but if not used for health care, you will pay your regular tax rate.

## Who is eligible to open an HSA?

Anyone covered by an HSA-qualified health plan and not covered by any non-qualified plan.

## What is an HSA-qualified health plan?

It's a high deductible health plan that can be thought of as a "low premium" plan. The consumer is responsible for the first several thousand dollars in health care expenses. The health savings account is designed to cover those expenses.

## Who can contribute to an HSA?

HSAs can be funded with pre-tax dollars by the member, their employer, or a third party.

## How much can be contributed each year?

In 2009 individuals can contribute \$3,000 and families can contribute \$5,950, including all contributions. These rates are subject to change every year, adjusted for inflation.

## Can account owners age 55 and older contribute additional money?

Yes, they may contribute an additional \$1,000 in 2009.

## How does an HSA work?

The member can use the account to make payments for qualified health care expenses.

## Who owns the HSA?

The member owns the account, regardless of who contributes. The money earns interest and is not taxable income to the employee on their federal return.

## **What happens to HSA funds if the owner changes jobs or retires?**

The account still belongs to the owner.

## **What can an HSA be used to pay for?**

Any expense covered by a health plan's Qualified Medical Expenses, which may include acupuncture, alcoholism or drug addiction treatment, birth control and other prescription contraceptives, chiropractor, dental treatment, diagnostic devices, eye surgery, eyeglasses, hearing aids, long-term care, non-prescriptive medicines, optometrist, over-the-counter drugs, smoking cessation, reproductive sterilization, therapy prescribed as treatment, and prescribed weight loss program.

Non-Qualified Medical Expenses include babysitting or childcare, cosmetic surgery to improve appearances, funeral expenses, health club dues, liposuction, maternity clothes, teeth whitening, and non-prescribed weight-loss program.

## **Can an HSA ever be used to pay for non-qualified expenses?**

Once the member reaches age 65 the funds can be used for non-qualified expenses, but withdrawals will be subject to tax. If the funds are used before age 65 for non-qualified expenses, the amount used will be taxed and incur a 10 percent penalty.

## **Can a retiree contribute to an HSA?**

Yes, if they're covered by a high-deductible health plan and not on Medicare.

## **So individuals can't contribute to an HSA if they're on Medicare?**

No, the law doesn't allow those on Medicare to contribute to an HSA, but they may continue to own and use an HSA if the account was opened before they went on Medicare.

## **Do members lose HSA funds at the end of the year?**

No, any remaining funds roll over into the following year and grow tax-free.

## **Can HSA funds be withdrawn at any time?**

Absolutely, as long as they're used to pay qualified medical expenses the money is not taxed at the federal level. If money is withdrawn before age 65 for other expenses, the regular tax rate would apply as well as a 10 percent penalty. After age 65, there are taxes but no penalty regardless of how the money is used.

## **Does an HSA earn interest?**

Yes. Best of all, the interest accumulates tax-free.

## **Can HSA funds be invested?**

Yes, in stocks, bonds, mutual funds, CDs, and annuities.

## **Which individuals benefit most from HSAs?**

Health savings accounts are not just for the healthy or the wealthy. HSAs and qualified high-deductible health plans can work for anyone, regardless of their income or the state of their health. HSAs are the best financial vehicle to save for retirement and pay for medical expenses in the meantime.

## **What happens if you no longer have an HSA-qualified plan?**

You keep your HSA. It's always your money. But you can no longer make contributions to your HSA if you're not with an HSA-qualified health plan.