

Lower Medical Costs With A Health Savings Plan

Recent legislation makes Health Savings Accounts (HSAs) available to many consumers.

What is an HSA? An alternative to traditional health insurance, an HSA is a tax-sheltered savings account, similar to an IRA, but earmarked for medical expenses.

Many people already have a Medical Savings Account (MSA) through their employer, but with this new legislation, you can set up your own HSA through your bank to pay for current and future qualified medical and retiree health expenses on a tax-free basis. However, you can't have both.

With an HSA, you would take the money currently spent on a high-cost traditional health plan and put part of the money toward a lower-cost high deductible policy and deposit the rest of the balance into a tax-deductible HSA. The biggest advantage of an HSA is that you may withdraw funds to pay for qualified medical expenses for yourself, your spouse and dependents without a penalty.

Funds from the savings account will be used to help pay smaller covered medical expenses until the deductible is met. Then, should the need arise, the high deductible insurance policy will take care of medical expenses exceeding the deductible. However, you must first meet all of your deductible before other insurance payments start.

In order to qualify for an HSA, you must first have a high deductible insurance policy. Your minimum deductible must be at least \$1,000 for an individual and \$2,000 for family coverage. The annual out-of-pocket costs, including deductibles and co-pays, cannot exceed \$5,100 for an individual and \$10,200 per family.

You can use funds in the HSA to pay for qualified medical expenses such as dental and vision care, and long-term care premiums. You cannot use the HSA to pay for cosmetic procedures, such as cosmetic dentistry.



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You can also use HSA funds to pay for over-the counter medicines not covered by your regular insurance policy.

If you are enrolled in Medicare, Medicaid or Tricare, you are not eligible for an HSA. You are eligible if you qualify for VA benefits and have not used your VA benefits and services in the past three months.

With an HSA, the account holder has control over all decisions affecting the investment of funds. Or, you can also choose not to invest funds. The unused balance in an HSA automatically rolls over year after year. You won't lose your money if you don't spend it all in one year.

After you turn 65, you can continue to use the account tax-free for out-of-pocket health expenses. If you enroll in Medicare, you can use the account to pay Medicare premiums, deductibles, co-pays and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can use your account to pay for your share of retiree medical insurance premiums. The only expense you cannot use your account for is to purchase Medicare supplemental insurance. Once you reach 65, you can also use your account to pay for other expenses, not related to health. However, the amount withdrawn will be taxable as income, but not subject to other penalties.

Be sure to keep all receipts in the event of an audit and remember it is your responsibility to keep track of the amounts deposited and spent from your account, just like a regular checking or savings account.

HSAs may not be the right solution for all employers or individuals. Contact your local community banker or e-mail questions to HSAINfo@do.treas.gov. to see if an HSA is right for you.

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