



## HSA - Health Savings Account

2010 update

Q. What is a Health Savings Account (HSA)?

A. A Health Savings Account is a way to SAVE money to pay for medical expenses tax free. Money not used for medical expenses can be saved and invested for retirement.

Q. Who may have an HSA?

A. Anyone who is not covered by Medicare. (Dependent children cannot have an HSA.)

Q. What are the benefits of HSAs?

A. Tax Savings. Money is put into the account tax free, withdrawals for medical expenses are tax free and interest earned on the account is tax free.

Q. How does a person start an HSA?

A. A person enrolls in an HSA compatible High Deductible Health Plan then opens the Health Savings Account and makes deposits. The HSA account must be opened at a financial institution that is set up to handle these types of accounts.

Q. How much may a person save each year?

A. An individual may save the amount of their deductible but not more than \$3050 in 2010. If an employee covers family on the High Deductible Health Plan the maximum amount that may be saved in 2010 is the amount of the family deductible but no more than \$6150.

Q. What may the savings be used for?

A. Medical expenses, which are paid tax free. Medical expenses can also include the cost of medical premiums such as COBRA, Medicare, long-term health care insurance and premiums while unemployed. If the savings are used for other than medical expenses there is a 10% penalty and regular taxation.

Q. May the savings be carried over year after year?

A. Yes. The account is owned and controlled by the employee. It is the employee's money and may be carried over year after year even if no longer employed by this firm or any firm. There is no "use it or lose it" with HSAs.

Q. What is the minimum Deductible and Maximum Out of Pocket expense on the High Deductible Health Plan?

A. For 2010, the minimum deductible for an individual is \$1200 and for a family, \$2400. The maximum out of pocket is \$5950 individual, \$11,900 family. The deductible and maximum out of pocket depend on the insurance plan an employer implements.

Q. What is unique about an HSA compatible High Deductible Health Plan?

A. The law says that there can be NO coverage prior to satisfying the deductible except certain preventive care. Therefore there is no Doctor visit co-pay and no Rx coverage before the deductible is met. These expenses are paid from the savings.

Q. Can partnerships or S-Corps deduct HSA contributions made for partners or shareholders?

A. No. HSA contributions are treated as payments by the partners or shareholders and allowed as "above the line" deductions on the individual income tax return.

This information is a very brief summary of benefits of HSAs and is not a brochure or complete description of the Benefits, limitations, exclusions or provisions of either HSAs or High Deductible Health Plans. Before implementing an HSA consult your tax advisor or lawyer.