

HSA NEWS & UPDATES

ROB SCHUMER & ASSOCIATES, INC.

Health Savings Accounts more popular than ever

HSA or Health Savings Account plans are really two separate parts. You first apply and are accepted to the “qualified” high deductible medical plan. That plan can be with any insurance company that has a plan recognized by the federal government. In our area, LifeWise Healthplans has the most experience offering and administrating HSA’s.

Once you are on the medical plan, you can open your HSA account. The account cannot be at just any bank. It too, must be a “recognized” custodian. HSA Bank is the second largest provider of qualified HSA accounts in the nation. Your account is

FDIC insured and earns interest after the minimum balance is



Your tax is reimbursed at the end of each year. Put that money right back into your account to help reduce your contributions starting in the second year.

reached. They offer online banking and the convenience of automatic deposits. You can check you balance

at any time on line.

The real savings to you is that you have a low-premium health plan. Lower premiums mean less money gone out of your pocket each month. It means lower increases each year at renewal time too.

You also have a bank account that effectively contains pre-tax money. When you pay for qualified expenses, you never pay income tax on that amount. It is money that would have been lost to tax that Uncle Sam allows you to pay your qualified expenses. That means Uncle Sam is cost-sharing your care.

- **Contributions reduce your taxable income**
- **Your contributions are limited each year to an amount equal to your medical plan deductible (pro-rated if you did not have the medical plan for twelve months)**
- **The earned interest grows tax deferred**
- **When you pay out of your account for any “qualified” medical expense, that money will always be income-tax free.**

55 or over?

Congress made “catch-up” provisions for older participants in a qualified HSA plan. If you are 55 or older you may contribute an additional amount each year into your account.

How much Can I contribute? In tax-year 2004 it was an additional \$500. That extra amount can still be deposited up until April 15th and claimed on your return. If you were not on the plan 12 months last year, just divide the \$500 by the number of months on the plan and that is your limit. What if I turn 55 during the year? Same formula, based on the number of months at age 55. In tax-year 2005, the extra amount is \$600 and it will increase by \$100 each year until we reach the \$1000 level. It will remain at \$1000 thereafter. If both spouses are over 55 and you are prepared to make the extra contribution, you each must have an account. Call me with any questions.

Q & A

Q: If I have a qualified health plan and have not opened my HSA account, what is the deadline?

A: You can open your account and make contributions for the prior year if done by April 15th.

Q: Can couples establish their own account so both can make contributions?

A: You may do that if both are on the qualified plan. In fact, if you both want to do catch-up, that is exactly what must be done. The down side is that you have to pay the additional bank set-up fee and monthly account fees until both accounts reach \$3000.

Q: Do I have to itemize in order to receive my tax savings?

A: No. But also remember that you cannot claim the contributions as a medical expense.

Q: Is it true that I cannot own any other health insurance while I have the qualified plan?

A: No, that is not true. There is "permitted insurance." Permitted insurance includes Disability, Dental, Long Term Care, Vision or insurance for a specific disease or illness, or one that pays a specific amount per day for hospitalization. In addition, there are non-insurance prescription drugs cards that are available. (See the enclosed brochure.)

Q: Are qualified HSA medical plans subject to COBRA?

A: No.

Q: Where can I get a complete list of eligible expenditures?

A: The best source is from the IRS. Ask for, or look on line for IRS publication 502. (See the link on my website.)

Q: Are any over-the-counter drugs eligible under the HSA?

A: Yes, there are some limited drugs that can be purchased from your account. Again, the IRS Publication 502 is your best resource. Vitamins are and interesting one. If they are prescription, they are covered. If not prescription, they are not covered.

Q: Can I pay for others from my account?

B: Yes. You may pay qualified expenses of a spouse or dependents from your account, even though they are not on the HSA qualified medical plan.

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This is a benefit few enjoy-

There is one tremendous benefit that HSA account holders enjoy. You, unlike most of America, can pay Long Term Care insurance premiums from your account. Think of your savings! If you are in the 25% tax bracket, you will save 25% right off the top on your premiums, because you will be using money of which a large portion would have been lost to income tax.

This is something that you would not want to do right away. First you need to build up your account so you can cover the deductible, co-insurance and other costs not covered by your health plan. See me in a couple of years to establish you Long Term Care insurance plan.

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