

Health Savings Account

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. An important provision in the bill greatly expands the former Medical Savings Accounts (MSAs) into new Health Savings Accounts (HSAs). HSAs, a new pre-tax savings tool, will enable workers with high-deductible health insurance plans to save, on a pre-tax basis, to cover health care costs.

These plans became available January 1, 2004. The income earned in the account is tax-deferred, and if withdrawals are used for medical purposes, they will be tax-free. Unlike current MSAs, unused balances at the end of the year may be rolled forward to future years, allowing for the potential to accumulate large balances. If distributions are not used for qualified medical expenses, the distribution is subject to an additional tax of 20%. Once the HSA owner reaches age 65, this additional tax is waived on non-qualified distributions, although the distribution will still be subject to income tax.

To be eligible to contribute to an HSA, the investor must be covered by a “high deductible insurance plan”, meaning a plan having an annual deductible of \$1,300 for self-only coverage and \$2,600 for family coverage (2016 amounts). Both amounts will be indexed for inflation. In addition, annual out-of-pocket expenses paid under the existing insurance plan must be limited to \$6,550 for individuals and \$13,100 for families for 2016.

Contributions to HSAs are deductible in determining adjusted gross income, meaning even taxpayers who use the standard deduction, rather than itemize, can claim a benefit. The maximum annual contribution to an HSA for 2016 is \$3,350 for individuals and \$6,750 for families. Contributions in excess of the limit are subject to an excise tax. For individuals who reach age 55 by the end of the tax year, the contribution limit is increased by \$1,000. Contributions cannot be made once a participant reaches age 65 and enrolls in Medicare. Contributions can be made after reaching age 65, as long as the individual is not enrolled in Medicare.

Additional information on Health Savings Accounts can be found in **IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans** (<http://www.irs.gov/pub/irs-pdf/p969.pdf>).

For a list of HSA providers, go to <http://www.hsafinder.com/>