

American Medical Association

Physicians dedicated to the health of America



Health Policy Group

Health Savings Accounts at a Glance

What is an HSA?

Due in large part to the long-term advocacy efforts of the American Medical Association (AMA), health savings accounts (HSAs) became a reality on January 1, 2004. If you're looking for affordable health insurance coverage — or just want to know what all the “buzz” is about — read on.

An HSA is a form of health insurance coverage that includes two parts:

- a tax-exempt personal savings account to be used for qualified medical expenses;
- a health plan with a high-deductible (e.g., \$1,000 for an individual or \$2,000 for a family).

Sound familiar?

HSAs replaced medical savings accounts (MSAs), first authorized in 1996. Because they are free of numerous complex, rigid MSA rules and regulations, HSAs are much more widely available and user-friendly.

Account funds are used to cover medical expenses before the plan deductible has been met. Unspent account balances accumulate and accrue interest from year-to-year. Once the health plan's annual deductible has been met, coverage resembles conventional insurance, typically in the form of a preferred provider organization (PPO) with little-to-no cost sharing for in-network services, and limits on total out-of-pocket costs.

How does an HSA account work?

An HSA account is much like an Individual Retirement Account (IRA), except that deposits *and* qualified withdrawals are tax-exempt. Individuals and their employers may deposit money into the HSA up to an annual dollar limit, with extra catch-up contributions allowed for those age 55 to 65. Account balances can be used to pay for a wide range of medical expenses — including some ordinarily not covered by insurance — as well as some insurance premiums. HSA funds also can be used to pay medical expenses of family members not covered by the high-deductible plan.

After reaching age 65, you may use HSA funds to augment regular income by paying ordinary income tax on withdrawals for any non-medical expenses. Like IRAs, HSA funds can be invested in stocks, bonds, and mutual funds. Since you own the account, it is fully portable regardless of any job changes.

Qualified medical expenses:

You can pay for a broad range of medical services out of an HSA account. These services are outlined in Internal Revenue Service Publication 502: www.irs.gov/pub/irs-pdf/p502.pdf

How does the health plan work?

Qualified high-deductible health plans (HDHPs) are available for individuals or families (two or more people), and provide coverage only after a high deductible has been met. You use HSA funds, or pay out-of-pocket, for any health care expenses up to the amount of the plan's deductible. *Exceptions:* Plans are permitted to pay for preventive services before you have met the deductible, including annual exams, immunizations, screening tests, routine prenatal and well-child care, tobacco cessation programs, and obesity weight-loss programs. Similarly, until 2006, you may have prescription drug coverage that takes effect before you have met the deductible.

What dollar limits are placed on HSAs and HDHPs?

The annual allowable limits on HDHP deductibles and out-of-pocket spending, and on HSA account contributions are listed below:

Minimum Deductible	
Individual \$1,000	Family \$2,000
Maximum Deductible	
Individual \$5,000	Family \$10,000
Maximum Out-of-Pocket Spending	
Individual \$5,000	Family \$10,000
Maximum Annual Account Deposit The deductible amount or	
Individual \$2,600	Family \$5,150 whichever is less

Notes: Dollar limits are indexed annually; amounts shown are for 2004. For PPO plans, the deductible and out-of-pocket limits apply to in-network services.

Tax deductibility:

HSA account deposits are deductible from taxable income even if you do not itemize deductions on your tax return.

Self-employed individuals may also deduct the insurance premiums.

Who can have an HSA?

To be eligible to have an HSA account, you must be covered by a qualified high-deductible health plan (HDHP), not be enrolled in Medicare, and not be claimed as a dependent on someone else's tax return. You may *not* be covered by another health plan that is not a qualified HDHP, with some exceptions such as dental coverage, vision coverage, accident and disability coverage, and employee assistance programs.

What if my employer doesn't offer an HSA?

You can get an HSA on your own. Just be sure to check with a knowledgeable insurance broker about any other employee benefits you or your spouse receive that might conflict with HSA eligibility, such as a flexible spending account (FSA) or a health reimbursement arrangement (HRA). You also might want to ask your employer to consider joining the growing number of employers offering HSA coverage as an employee benefit.

What if I have a chronic condition?

Even if you have a chronic or expensive medical condition, an HSA could be more affordable than conventional coverage because of the premium savings, out-of-pocket spending limits, and tax savings. What's more, with HSAs, patients have more control over health care decisions than under managed care plans.

Is an HSA right for me?

In comparing health insurance options, take into account your anticipated health care expenses, your comfort with financial risk in the event of unexpected expenses, how much control you want over your health care choices and spending, and your current and future finances. Depending on your alternatives, you might decide that an HSA is right for you.



Why consider an HSA?

- **Protection** — You're covered against high or unexpected medical bills.
- **Affordability** — High deductibles mean lower premiums.
- **Savings** — Tax advantages, account accumulations, and interest earnings provide an opportunity to save for the future.
- **Flexibility** — Make any number of account contributions, at any time during the year, up to April 15 of the following year.
- **Portability** — You own the account, so it goes with you regardless of any job changes.
- **Choice** — You decide which physicians or other health care professionals to see, and which treatments are right for you.
- **Control** — Most of all, an HSA puts *you* in control of your healthcare decisions and spending.



How can I get an HSA?

Establishing an HSA is easier than ever. The U.S. Treasury Department offers a Web site, e-mail address, and voice mailbox to answer the public's questions about HSAs, and provide resources for locating HSA and high-deductible health plan (HDHP) vendors in your state:

www.treas.gov/offices/public-affairs/hsa
hsainfo@do.treas.gov
202 622-4HSA

HSAs for physicians

HSAs are available to physicians, their families, and employees through the AMA Insurance Agency:

www.drhsa.com
877 393-0518

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