

Health Savings Accounts: A New Way to Approach Health Care

What are Health Savings Accounts?

Health Savings Accounts (HSAs) are a form of health insurance coverage and are the latest innovation in consumer-directed health care.

Here's how it works:

Individuals under the age of 65, employed or not, enroll in a low-cost, high-deductible insurance plan (e.g., \$1,000 for an individual or \$2,000 for a family).

Next, take those cost savings and open a tax-free savings/spending account (HSA) to cover current and future qualified medical expenses. The individual owns and controls their account. HSA account deposits and earned interest are deductible from taxable income even if you do not itemize deductions on your tax return. Self-employed individuals may also deduct the insurance premium. The money withdrawn for medical expenses is not taxed and the unused balance rolls over from year to year. Like IRAs, HSA funds can be invested in stocks, bonds, and mutual funds, and are fully portable regardless of any job changes.

How an HSA is funded:

Employers or their employees or a combination of both can fund the individuals' HSAs with pre-tax dollars. The yearly contributions receiving tax-free treatment may not exceed the amount of the insurance policy's annual deductible (a cap of \$2,600 for individuals and \$5,150 for families).

Individuals age 55 to 65 may make catch-up contributions. 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.

How does the plan work?

Qualified high-deductible health plans are available for individuals or families (two or more people), and provide coverage only after the 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. However, plans are permitted to pay for preventive services before you have met the deductible (annual exams, immunizations, screening tests, routine prenatal and well-child care, etc.).

How can I get an HSA?

The U.S. Treasury Department can answer questions about HSAs. Go to <http://www.treas.gov/offices/public-affairs/hsa> or call (202) 622-4HSA.

There are now more than 13 insurance companies in North Carolina offering HSA-compatible policies.

Go to <http://www.hsainsider.com> for a list of insurance companies in North Carolina with HSA-qualified high-deductible plans and their websites.

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