

## Health Savings Account Summary

The new Health Savings Accounts (HSA) provision included in the Medicare bill just passed the Senate 54-44. The new law will go into effect January 1, 2004.

<b>Advantages to an HSA over an MSA</b>		
	<b>MSA</b>	<b>HSA</b>
<b>Contribution source</b>	Either individual or employer, not both	Individual and/or employer
<b>Contribution Levels</b>	65% of deductible single, 75% of deductible family	Up to 100% of the deductible with maximum limitations determined by the IRS each year.
<b>Deductible Ranges</b>	<i>For 2003:</i> \$1,700-2,500 for single \$3,350-5,050 for family	<i>For 2004:</i> Min. = \$1,000 for single Min. = \$2,000 for family
<b>Max. Out-of-Pocket</b>	<i>For 2003:</i> Max. = \$3,350 for single Max. = \$6,150 for family	<i>For 2004:</i> Max.= \$5,000 for single Max.= \$10,000 for family

### Insurance Plans

- Account holders must have a qualified insurance plan, but the insurance requirements have been opened up considerably.
- Allowable deductibles have been lowered to **\$1,000 for an individual** and **\$2,000 for a family**.
- The **maximum deductible requirement has been replaced by maximum out-of-pocket limits of \$5,000 for individuals** and **\$10,000 for families**. These limits include deductibles and coinsurance for "in-network" providers. These amounts will be adjusted annually for cost of living increases. There is no restriction on the stop-loss limits for out-of-network services.

### Annual Contributions

- Annual contributions to the HSA are limited to 100% of the deductible up to a maximum a maximum limitation determined by the IRS each year. Proposed limitations for 2004: \$2,600 for an individual or \$5,150 for a family. Limitations could be higher pending IRS Regulations.
- Account holders aged 55 and up may make additional contributions of \$500 in 2004, increasing by \$100 each year until it reaches \$1,000 in 2009.
- Such **contributions may be made** by any combination of **employer and individual**. Employer contributions are excludable from income and individual contributions are deductible "above the line." That is, a taxpayer does not have to itemize deductions in order to take the contribution as a deduction.
- Employers must make comparable contributions to employees (cannot discriminate)

### HSA Investing / Earnings / Tax treatment

- Funds in an HSA may be invested as the account holder sees fit (CDs, money market funds, mutual funds, etc.) except they may not be invested in life insurance contracts.
- Earnings on the accounts **build-up free of taxes**. The funds will be held in a trust administered by a bank, insurance company, or other approved administrator.
- Funds may be **withdrawn tax-free** to pay for qualified medical expenses, which include all section 213(d) expenses, except health insurance premium payments.
- HSA funds may be used to pay premiums only for long-term care insurance, COBRA continuation premiums, or other health insurance premiums for people receiving unemployment benefits.
- Funds withdrawn for non-medical purposes will be included in the account holder's gross income and taxed accordingly. A **penalty of 10%** will also be applied except in cases of death, disability, or Medicare eligibility.
- In the case of death or divorce, the account may be transferred to a spouse without incurring taxes. If someone other than a spouse is the beneficiary, the funds will be treated as taxable income.
- MSA Transfer: MSAs will be able to transfer into an HSA. However, we do not know at this time if it will occur automatically or if customers will need to complete a transfer form.

### MSA Bank Info

- HSA fees and rates will be the same as MSA fees and rates.
- New forms will be required to open an HSA. Forms are available at [www.msabank.com](http://www.msabank.com) click on Forms, then Application Forms.