

Bottom Line Tidbit
**Health Savings Accounts - A Tax Friendly Way to
Help Pay Health Care Costs**

Parman R. Green, MU Extension Ag Business Mgmt. Specialist

A Health Saving Account is a saving account you should evaluate if you are several years from age 65, relatively healthy, and not covered by a group health insurance plan. Health Savings Accounts are custodial accounts created to pay qualified medical expenses for the account holder, their spouse and dependents. Contributions to Health Savings Accounts are tax deductible or if the contribution is made by an employer the contribution is not included in the employee's gross income. Additionally, distributions from a Health Savings Account are tax-free if they are used to pay for qualified medical expenses.

To qualify for a Health Savings Account, an individual must be covered under a qualifying high-deductible health insurance plan. A qualifying high-deductible health plan for 2009 must have an annual deductible of at least \$1,150 for individual coverage with a maximum annual out-of-pocket expense limit of \$5,800. For family coverage, the annual deductible must be at least \$2,300 and have a maximum annual out-of-pocket expense limit of \$11,600.

The maximum annual contribution to a Health Savings Account for 2009 is \$3,000 for individual coverage or \$5,950 for family coverage. Individual policyholders and covered spouses who are 55 or older are allowed an annual catch-up contribution of \$1,000 for 2009. Also available is a one-time option to rollover funds from a traditional or Roth IRA to your HSA. The maximum amount of this rollover is equal to the annual HSA contribution limit.

An eligible individual can establish a Health Savings Account with a qualified trustee or custodian. A qualified trustee or custodian is any bank or insurance company, or any other entity already approved as a trustee or custodian for IRAs. The trustee does not have to be the provider of the high-deductible health coverage.

Contributions can be made to a Health Savings Account at any time prior to the filing due date of your tax return, not including extensions. Contributions are deductible in determining your adjusted gross income; that is, contributions are deductible regardless of whether you take the standard deduction or itemize.

Health Savings Accounts do not have a "use-it or lose it" provision so any unused contributions can be carried forward from year to year and used for eligible medical expenses in later years. The beneficiary can also withdraw funds for non-medical uses penalty-free after age 65, thus treating the unused savings in the Health Savings Account as the equivalent of a traditional IRA.

While not for everyone, a Health Savings Account could be financially beneficial, particularly for people not covered by group health insurance plans, self-employed individuals, or uninsured employees. Tax deductible going in and tax-free coming out – it doesn't get much better than that!