

**Health Savings Account Rules for 2012**  
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A **Health Savings Account** or **HSA** is tax advantaged medical savings account that is owned by the individual. They are designed to be used in conjunction with a **High Deductible Health Insurance Plan**. The money contributed to the account is not subject to federal tax at the time of deposit (Pre-Tax Dollars). Funds in a Health Savings Account can be used to pay all eligible medical related expenses not covered by your Health Insurance Plan.

### **Health Savings Account (HSA) Contribution Limits**

Initially, Health Savings Account contributions were limited to the lesser of the actual deductible or specified IRS limits. Congress later eliminated the deductible based limit and set guidelines to limit maximum contributions.

These contribution limits are according to IRS Publication 969, "Health Savings Accounts and Other Tax-Favored Health Plans." You can make HSA contributions for any calendar year until April 15 of the following calendar year, the same as IRA contributions.

### **2012 HSA Contribution Limits Rise Slightly From 2011.**

Increases in the contribution limits are based on inflation and due to the fact that overall inflation measured by the CPI was subdued there was a small inflation adjustment. Therefore, the 2012 HSA contribution limits rose by \$50 for individuals and \$100 for families over 2011.

This means in 2011, a family may contribute \$6,250 ( \$520.83 /mo. ) to an HSA. If the owner of the plan is age 55 or older the catch up provision allows an additional \$1,000 for a total contribution of \$7,250.

**Any money in your HSA account that is not used during a calendar year is rolled over to the following year, so this means your account balance can grow over time.**

### **Health Savings Account Eligibility**

In order to establish a Health Savings Account ( HSA ) you must have a High Deductible Health Plan ( HDHP ). You may choose the deductible and co-insurance combination you wish to have but they must fall within these guidelines for 2010:

| <u>Participant</u> | <u>Minimum Deductible</u> | <u>Maximum Out Of Pocket</u> |
|--------------------|---------------------------|------------------------------|
| Individual         | <b>\$1,200</b>            | <b>\$5,950</b>               |
| Family             | <b>\$2,400</b>            | <b>\$11,900</b>              |

**For example:** If you are an individual with more than \$5,000 in your HSA you may choose a HDHP that has a \$5000 deductible and no co-insurance. This plan would be inexpensive and would meet the HSA Eligibility requirements. However, a plan with a \$5,000 deductible and 20% co-insurance for a maximum out of pocket of \$7,000 would not qualify as it is above the Maximum Out Of Pocket limit of \$5,950.

### **Health Savings Account Investments**

Your HSA account has investment options similar to an IRA account. Money market or similar cash instruments are common as people want to make sure funds are available to cover out of pocket medical expenses. If your balance grows beyond your annual maximum out of pocket expenses, then you may choose to put the excess into a stock mutual fund or other "at risk" investment option. Your HSA administrator may charge extra fees to establish brokerage services. Please consult your account representative for advise and investment options.

### **Health Savings Account Qualified Expenses**

You can use your health savings account to pay for a wide range of medical and health related services. When you incur a medical or health related expense that is not covered by your insurance, there is a good chance that you can pay for it out of your HSA.

The IRS defines qualified expenses as: "Medical expenses are the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body. These expenses include payments for legal medical services rendered by physicians, surgeons, dentists, and other medical practitioners. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes."

### **Examples of HSA Qualified Expenses Include:**

Doctor Visits and Tests not covered by your insurance policy.

Surgical procedures and hospitalization related charges not covered by your insurance.

Prescription Drugs

**Certain OTC Drugs qualify** but now need a prescription from your doctor.

Vitamins & supplements **do not** qualify.

Acupuncture & Chiropractic Care

Eye Exams, Glasses and Laser Surgery

Hearing Tests and Hearing Aids

Dental Exams, Dental Work and Dentures

Alcohol and Drug Abuse Treatment

Insulin and Diabetic Testing Supplies

Long Term Care related expenses.

Wheel Chairs, hand rails or other disability related home improvements.

Your health insurance provider or HSA administrator will provide you with a complete list of goods and services that are eligible.

The complete list is also available on pages 5-14 on IRS Publication 502.

**Record Keeping:** Make sure you save all your HSA related receipts in case you are ever audited. Similar to a tax audit you will need proof of what you purchased using your account.

### **HSA Withdrawal Rules**

It is not necessary for HSA participants obtain advance approval to withdraw funds, and the funds are not subject to income taxation if made for qualified medical expenses. Most HSA administrators make both checks and a debit card available for easy access to your money. Some also allow for a reimbursement process similar to the one used by most health insurance companies, however this is uncommon.

To learn more contact your health insurance company or a highly qualified agent at Insurance Brokers of MN, Inc.