

### **High Deductible Health Plans and Health Savings Accounts 2012-13**

Health Savings Accounts (HSA) were created in Section 1201 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, P.L. 108-173. They are tax-exempt trusts or custodial accounts for the payment of qualified medical expenses. Eligibility is restricted to those persons who are enrolled in a high-deductible health plan (HDHP) that meets IRS requirements, are not covered by another health plan that is not a HDHP (with certain exceptions), are not enrolled in Medicare; and not eligible to be claimed as a dependent on another person's tax return. Ineligibility is not triggered through coverage for accidents, disability, dental, vision or long-term care. HSA minimum deductibles and maximum contributions are adjusted for inflation.

To qualify as an HSA eligible HDHP tax year 2012, deductibles for a single contract must be at least \$1,200 and out-of-pocket expenses cannot exceed \$6,050. For a family contract, the annual deductible must be at least \$2,400 with out-of-pocket expenses not in excess of \$12,100. For tax year 2013, deductibles for a single contract must be at least \$1,250 and out-of-pocket expenses cannot exceed \$6,250. For a family contract, the annual deductible must be at least \$2,500 and the out-of-pocket expenses cannot exceed \$12,500. For non-tax year plans that begin in calendar year 2012, tax year 2013 minimum deductible and maximum out-of-pocket requirements apply at the start of the plan year that begin in tax year 2013. For HDHPs that feature a network, contribution limits are determined by the in-network deductible; deductibles and out-of-pocket fees are indexed for inflation and are guaranteed to increase in the future. For a family contract, no amounts can be payable from the plan until the family has incurred annual covered medical expenses in excess of the minimum annual deductible. Preventive care can be covered at 100% of eligible expenses, but except for such expenses, the plan cannot provide benefits until the deductible is met. An HDHP can be fully- or self-insured by an employer.

An employee's contributions to an HSA must be made in cash, and contributions are deductible in determining adjusted gross income. An employer's contributions to an employee's HSA are treated as employer-provided coverage for medical expenses under a health plan and are excludable from the employee's gross income. The employer's contributions are not subject to withholding from wages for income tax or subject to the Federal Insurance Contributions Act. The HSA is generally exempt from tax unless it has ceased to be an HSA. Earnings on amounts in an HSA are not includable in gross income while held in the HSA. Contributions can be made at any time during the year, though generally contributions must be made by April 15 following the year for which contributions are made.

HSA distributions can be made at any time to pay for qualified medical expenses of the account beneficiary, his or her spouse, or dependents. Any amount of the distribution that is not used exclusively to pay for such qualified expenses are includable in the gross income of the account beneficiary and is subject to a 10% tax on the amount includable, except in the case of distributions made after the beneficiary's death, disability, or attainment of age 65. "Qualified

medical expenses” (QME) are listed in Section 213(d) of the aforementioned law; employers and trustees or custodians are not required to determine whether HSA distributions meet the tenets of QME. The only circumstances under which HSA accounts may be used to pay medical premiums are for COBRA continuation coverage, for medical coverage while receiving unemployment compensation under federal or state law, and for individuals over the age of 65 to purchase Medicare or another insurance plan.

An insurance company or bank can offer an HSA, as well as an entity already approved by the Internal Revenue Service to offer an IRA or Archer Medical Savings Account (MSA). Any eligible employee can establish an HSA with or without the involvement of their employer. If established by an employee, the employee, the employee’s employer or both can contribute to the HSA. For 2012, the maximum annual HSA contribution is limited to \$3,100 for a single contract and \$6,250 for a family contract.

Eligible individuals who are age 55 or older can contribute an additional \$1,000. For example, if you have self-only coverage, you can contribute up to \$4,050 (the contribution limit for self-only coverage (\$3,050) plus the additional contribution of \$1,000). However, beginning with the first month you are enrolled in Medicare, your contribution limit is zero. Both the HSA and catch-up provision are pro rated based on the number of months of the year a person is an eligible individual. If an HSA is established during the calendar year, the monthly maximum contribution is calculated on a monthly basis. For more information, please visit the U.S. Department of the Treasury’s website at <http://www.ustreas.gov> and consult IRS Publication 969 (<http://www.irs.gov/publications/p969/ar02.html>).

As of January 1, 2012, 14 percent of the health insurance plans available to school districts or educational service center employees in Ohio were high deductible plans. In 33% of high deductible plans, employers make a contribution to the employee’s HSA. The median employer contribution to health savings accounts was \$931 to single accounts and \$2,000 to family accounts.