

CARES Benefits 101

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SPECIAL POINTS OF INTEREST:

- The High Deductible Health Plan (HDHP) offered by CARES can be paired with an HSA
- You may choose to open an HSA or select a FSA, but IRS regulations will not allow you to use both
- Once you reach age 65 or over and enroll in Medicare Part A or B, you cannot continue to make contributions to an HSA; however, you can still make withdrawals
- Each time you receive medical care and incur a charge for the HDHP deductible or coinsurance amount, you choose whether to pay from your HSA or out-of-pocket

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IS A HEALTH SAVINGS ACCOUNT RIGHT FOR YOU?

Health Savings Account (HSA)

A Health Savings Account (HSA) is a tax-advantaged health savings account for participants enrolled in a High Deductible Health Plan (HDHP). You can use funds in an HSA to help pay for qualified expenses, or save for the future. You may contribute funds to your HSA up to the annual IRS contribution limit and pay for qualified medical expenses with tax-free dollars. (There is an additional catch-up contribution option for participants age 55 and over.)

Any funds in your account at the end of the plan year accumulate and may earn non taxable interest or investment return over the life of the account. **The dollars in your HSA are your money.** You choose your own financial institution. Your account balance is portable upon retirement or termination from the company, but enrollment in a HDHP is required to make contributions to a HSA.

**IRS regulations govern all HSA accounts and transactions and are subject to change.

“The dollars in your HSA are your money.”

For 2011, the annual contribution limit is \$3,050 for single coverage / \$6,150 for family coverage. The “catch-up” contribution limit is \$1,000.

How Does it Work?

Effective January 1, 2011, CARES is adding a high deductible Health Plan (HDHP) that can be paired with a health savings account if the employee chooses to fund an HSA. Employees are not required to have an HSA, but there may be tax advantages if you choose to contribute to one. Most banks offer Individual HSAs (fees are charged) and you make direct contributions to the HSA administrator. Your tax deduction is obtained when you file your Federal tax return (see tax reporting information below). You can make contributions to your HSA throughout the year or in a single lump sum; however, when you withdraw funds, you may only use up to the amount in your account.

After you have incurred a qualified expense there are several options available for accessing HSA funds. Your HSA administrator may: (1) provide you with a checkbook, (2) allow you to draw directly from your account with a debit card, (3) give you the option for automatic withdrawal, or (4) require you to submit a completed claim form. HSA money rolls over indefinitely so you do not need to make a withdrawal.

You may choose to open an HSA or select a FSA, but IRS regulations will not allow you to use both.

Once you reach age 65 or over and enroll in Medicare Part A or B, you cannot continue to make contributions to an HSA; however, you can still make withdrawals.

Tax Reporting

HSA contributions are tax deductible and may earn tax-free interest or investment returns. When you have a *qualified expense*: (1) you may make a tax-free withdrawal from your account to cover the costs, or (2) pay out of your pocket and save your HSA for future qualified expenses—even in retirement. Only qualified healthcare expenses, as allowed by the IRS are eligible for reimbursement from a Health Savings account on a tax-free basis. IRS Publication #502 is a good general guide to expenses considered as qualifying medical expenses for purposes of HSA reimbursement. Some examples of qualifying expense are medical, dental and vision deductibles and coinsurance amounts, hearing aids, smoking cessation programs, wheelchairs, and organ transplants.

HSA account owners must file form 8889 with their individual tax return. The form and instructions are posted on the IRS website at www.irs.gov. Employees should consult their own tax advisor to determine tax advantages and potential consequences for opening a health savings account and that eligibility requirements are met. Since the HSA funds are your money, it is important to keep accurate records and carefully track your account activity to show that your distributions were used to reimburse qualified medical expenses.