

Health Savings Accounts Fund Medical Costs with Tax-Free Dollars



Health Savings Accounts are one of the newest methods of financing health costs. They are similar to Individual Retirement Accounts. They may be set up by an employer or by an individual. Employer contributions are not considered income for the employee but they are deductible by the employer.

"Money in a Health Savings Account grows tax-free. No federal income taxes are paid on withdrawals to pay medical expenses. The funds can be used to pay deductibles and co-payments under health insurance plans as well."

Employee contributions are deductible on the individual's income tax return as an "above the line" deduction from income. This means the benefit is available whether the

individual itemizes deductions on their tax return or not. There are no income limits for individuals claiming a deduction for a Health Savings Account contribution.

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on withdrawals to pay medical expenses. The funds can be used to pay deductibles and co-payments under health insurance plans as well as expenses not covered by health insurance. Examples are vision care, dental care, over-the-counter medications, and nursing home care.

Only individuals who are not eligible for Medicare and who are covered by a "high deductible" health insurance plan are allowed to contribute to a Health Savings

Account. The law defines a "high deductible" plan as one having a deductible of at least \$1,000 for single coverage and at least \$2,000 for family coverage.

A Health Savings Account may be funded with up to

100% of the deductible amount of the individual's health insurance plan to present maximum of \$2,600 for an individual and \$5,150 for a family. The law also permits certain "catch-up" contributions for individuals who will be age 55 or older by the end of this year.

Unlike health care flexible spending accounts (flex plans) that many employers now offer their employees, Health Savings Accounts can carry over unused amounts from year to year. An individual can build up an accumulation for future medical expenses, including medical expenses in retirement years. In other words, there is no annual "use it or lose it" requirement.

If you qualify, a Health Savings Account provides an excellent vehicle to fund medical costs with tax-free dollars.

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