

HSA

Health Savings Accounts

New Contribution Rules for 2007

New Contribution Limits for 2008

Sample

Questions & Answers

What is a Health Savings Account (HSA)?

An HSA is a tax-exempt trust or custodial account established for the purpose of paying medical expenses in conjunction with a high-deductible health care plan.

What is the HSA's purpose?

The purpose of the federal law is to create tax incentives so one saves for future health and retirement needs. The HSA will primarily be used to accumulate funds to pay health expenses on a tax-preferred basis. However, the HSA can also be used to accumulate wealth on a tax-preferred basis. This will happen when the contributed funds and the earnings are not spent on health expenses.

What requirements must be met in order to properly establish a Health Savings Account?

There must be a written plan agreement which creates a trust or custodial account. The HSA must be created or organized in the U.S. The HSA plan agreement must meet the following requirements:

1. The trustee or custodian must be a bank, an insurance company, or a nonbank trustee as defined for IRA purposes.
2. No part of the HSA assets may be invested in life insurance contracts.
3. The HSA assets cannot be commingled with other assets unless pursuant to a common trust fund or common investment fund.
4. The account owner's interest in the HSA is nonforfeitable.
5. The contributions must be in the form of cash unless a rollover contribution is made. It is permissible to roll over funds into an HSA from another HSA or an Archer Medical Savings Account (MSA).
6. The contributions for a given calendar year cannot exceed certain limits as discussed later.

Who is eligible to establish an HSA?

An "eligible individual" can establish an HSA. An "eligible individual" means, with respect to any month, any individual who:

1. Is covered under a high-deductible health plan (HDHP) on the first day of such month;
2. Is not also covered by any other health plan that is not an HDHP (with certain exceptions for plans providing certain limited types of coverage);