

HSA's

Business & Health Savings Accounts

*New Contribution
Rules for 2007*

*New Contribution
Limits for 2008*

Sample

Questions & Answers

Purpose

The purpose of this brochure is to present a business decision-maker with basic information about HSAs so a business can decide what role, if any, it wishes to take with respect to Health Savings Accounts.

What is a Health Savings Account (HSA)?

An HSA is a tax-preferred account similar to a 401(k) plan or an IRA. It is a quasi-trust account established on behalf of a specific person. It is an individual account, not a joint account. HSAs have the special feature that funds withdrawn to pay the qualified medical expenses of the HSA account owner, his or her spouse or any dependent will be tax free.

When can a person establish an HSA and have contributions made to such HSA?

A person is eligible to have a contribution made to an HSA only if he or she is an "eligible" individual. This is true whether a business makes the contribution, the individual makes a contribution for himself or herself, or the contribution is made by a family member or any other person or entity. A person is only eligible if he or she meets all four of the following requirements: (i) is covered by a high-deductible health plan (HDHP), (ii) is not covered by any plan which is not an HDHP (i.e. a low-deductible plan), (iii) is not enrolled in Medicare and (iv) may not be claimed as a dependent on someone else's tax return.

Note that there is no requirement for a person to be employed, to have compensation, or to not be covered by a pension plan in order to be eligible to have a contribution made to his or her HSA.

There is also no requirement that an employer sponsor an HDHP. An individual may purchase an HDHP for himself or herself. Or, a parent could buy the coverage for a child. However, an employer may also choose to sponsor an HDHP. If the employer sponsors the HDHP, it will want to receive a written statement from its health insurer that its health plan qualifies as an HDHP for HSA purposes.

The general rule is—a person must be covered by an HDHP in order for an HSA contribution to be permissible. There is an exception for certain rollover contributions. A person who continues to maintain an Archer Medical Savings Account may roll over such funds from the Archer MSA to an HSA. A rollover from one HSA to another HSA is permissible, even though the individual is ineligible to make an annual HSA contribution because they are no longer covered by an HDHP.