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# HSA Health Savings Account

*A discussion on:*

- *eligibility*
- *contributions*
- *distributions*

Questions & Answers

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## **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 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 will 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.

HSAs, in conjunction with high-deductible health care plans, may lower an employer's health care costs and give employees more control over where their own health care dollars are spent.

### **What requirements must be met to be a Health Savings Account?**

There must be a written plan agreement which creates a trust or custodial account. The purpose of the trust is to pay qualified medical expenses. The trust 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 beneficiary's interest in the HSA is non-forfeitable.
5. The HSA assets may not be used to purchase health insurance. However, see the exceptions as discussed later.
6. The contributions must be in the form of cash unless a certain rollover contribution is made. It will be permissible to roll over funds into an HSA from another HSA or an MSA.
7. 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: