Health Savings Accounts

- The Medicare Prescription Drug and Modernization Act of 2003 also established a new way for consumers to pay for medical expenses- **Health Care Savings Accounts (HSA'S).** This is a tax-favored vehicle for accumulating funds to cover medical expenses. Individuals under age 65 are eligible to establish and contribute to **HSA**s if they have a <u>qualified high-deductible health plan.</u> See slide.
- Annual contributions of up to 100% of an individual's health plan deductible can be made to an HSA. For 2024, the maximum annual contribution is $4,150 for individual policies and $8,300 for family policies (indexed annually), provided the insured has a deductible at least that high. Individuals age 55 to 65 can make an additional catch-up contribution. Individuals with HSAs who are age 55 and older may make additional annual contributions of $1000.
- Earnings in HSAs grow tax free, and account beneficiaries can make tax-free withdrawals to cover current and future qualified healthcare costs. Qualified healthcare expenses include amounts paid for doctors' fees, prescription and non-prescription medicines and necessary hospital services not paid for by insurance. They also include retiree health insurance premiums, Medicare expenses (but not Medi-gap), qualified long-term care services, and COBRA coverage. Qualified medical expenses are those expenses incurred by the HAS owner and his or her spouse and dependents. Nonqualified withdrawals are subject to income taxes and a 10 percent penalty tax. HSAs are fully portable, and assets can accumulate over the years. Upon death, HSA ownership may be transferred to a spouse tax free.