MORE ON HEALTH SAVINGS ACCOUNTS

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Some recent tax-law changes have improved Health Savings Accounts (HSA's) that have made them even more attractive to a wider range of people. We have been strong advocates for high deductible health insurance couple with HSA's since their inception. The HSA can best be described as an IRA for medical expenses. Contributions can be deducted above the line or an employer can make tax-deductible contributions on behalf of employees or both. There is no current income tax on the earnings within the account. Distributions are tax-free if the funds are used to pay for qualified medical expenses. Any taxpayer, who is not eligible for Medicare, buys high deductible health insurance and does not have coverage under any other health insurance plan can have a health savings account.

The rules for 2009 state that a high deductible plan is any insurance plan with a deductible of at least $1,150 up to a maximum of $5,800 for individual coverage. For family coverage, a deductible of at least $2,300 up to $11,600. The maximum contributions to the HSA are $3,000 for individuals; $5,950 for family coverage with a catch up contribution of $1,000 is permitted for individuals age 55 or over.

In contrast to flexible spending accounts FSA's where unused money is forfeited, any unused funds in an HSA may be used to pay medical expenses in future years. One may also roll-over money from an IRA to an HSA. Usually when a taxpayer takes a distribution from an IRA they must pay tax at ordinary income tax rates. One may roll funds from an IRA to an HSA as a one-time roll-over tax exemption. This includes the 10% penalty for people under 59 ½ years old. This strategy can be quite beneficial for someone who is nearing retirement or has already retired. The maximum amount that may be rolled over is limited to the maximum HSA contribution allowed for the year.

Source Material:

Berry Ken Weigh Tax-Favored Health Plans For Clients *The Tax Strategist* 11/09