

# Health Savings Accounts (HSA)

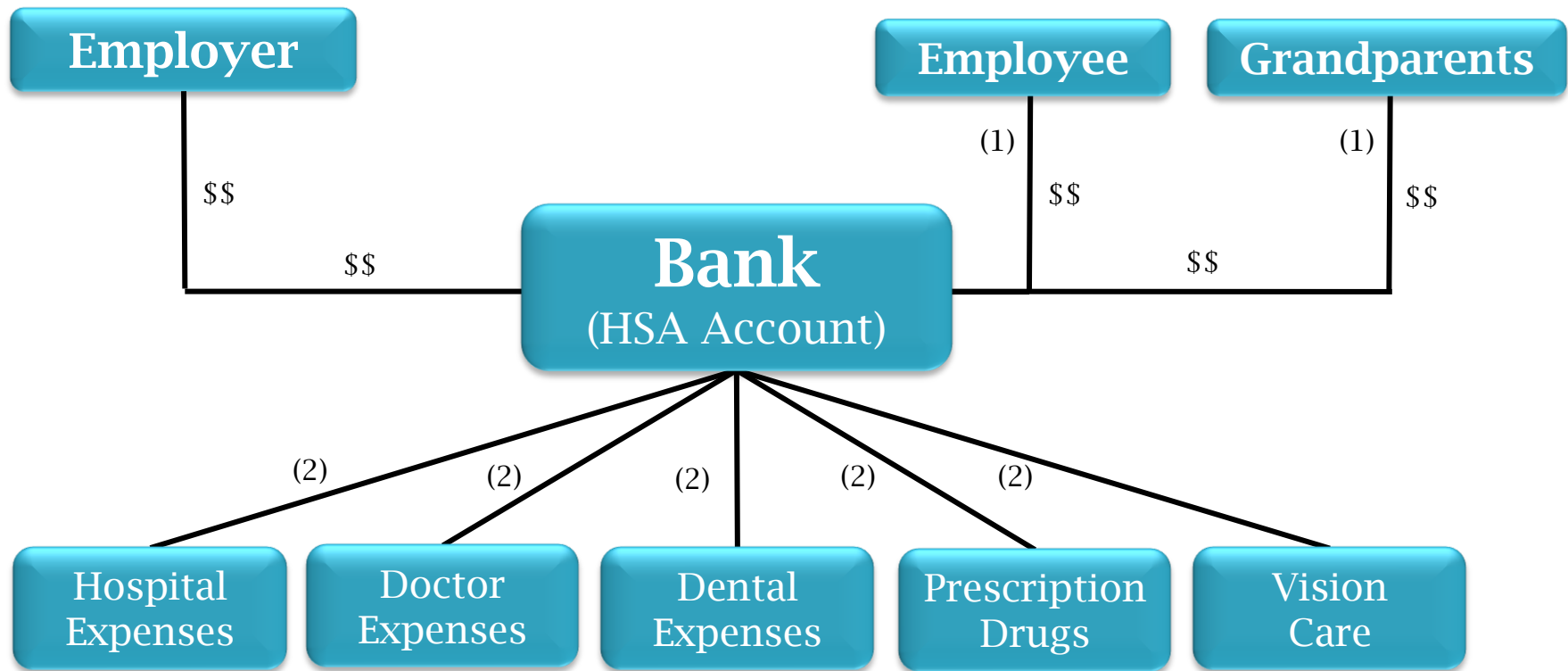
**For Colleagues of  
ABC, Inc.**

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# Developing Financial and Economic Literacy



# Health Savings Account (HSA) w/High Deductible Health Plan



(1) Dollars contributed on a pre-tax basis

(2) Distributions from the HSA are not taxed (if used for Qualified Medical Expenses)

**If distributions from HSA are used for non-Qualified Medical Expenses, it will be subject to income tax and 20% penalty.**

\$3,050 for Individuals in 2011; \$6,150 for a Family in 2011; \$1,000 catch-up for 55+

# An Overview

- HSAs were created in Medicare legislation and signed into law by President Bush on December 8, 2003
- A special account owned by an individual
- The contributions are used to pay for current and future medical expenses
- HSAs are used in conjunction with a “High Deductible Health Plan” (HDHP)  
*...Health insurance that does not cover first dollar medical expenses (except for preventive care)*

# HSA Eligibility

- Any individual covered by an HDHP
- Cannot be claimed as a dependent on someone else's tax return. (Children cannot file for own HSA)
- Not enrolled in Medicare
- Not covered by other health insurance
- No Income limits on who can contribute to and HSA

# HSA Contribution Rules

## Contribution to an HSA Can be Made by Employer, the Employee, or Both

- ❑ If contribution is made by the employer, it is not taxable to the employee (excluded from federal taxes and wages)
- ❑ If made by the individual, it is an “above-the-line” deduction, i.e. Form 1040 (not deductible in CA)
- ❑ Can be made by others on behalf of the individual and deducted by the individual

# HSA Contribution Rules

## Maximum Amounts of Contribution to HSA from All Sources

- \$3,050 (Self-Only Coverage – 2011)
- \$6,150 (Family Coverage – 2011)
- For individuals age 55 and over, additional “catch-up contributions” to HSA allowed is \$1,000 for 2011

*Contributions must stop once an individual is enrolled in Medicare*

# HSA Distribution

- Distribution is tax-free (federal) if taken for “qualified medical expenses” (includes over-the-counter drugs)
- Qualified medical expenses must have occurred after the HSA was created
- Tax free distributions can be taken for qualified medical expenses of:
  1. Person covered by the high deductible plan
  2. Spouse of the individual (even if not covered by the HDHP)
  3. Any dependent of the individual (even if not covered by the HDHP)

# HSA Distribution

- If distribution is not used for qualified medical expenses:
  1. Amount of distribution is included in income
  2. 20% excise tax, except when taken after:
    - Individual dies or becomes disabled
    - Individual is age 65

# HSA Distribution

- Distributions may not be used for the payment of premiums, except under the following conditions:
  1. A health plan during any period of continuation coverage required under any federal law
    - Federal COBRA - Yes
    - CalCOBRA - No
  2. A qualified long-term care insurance
  1. A health plan during a period in which the individual is receiving unemployment compensation under any Federal or State law
  2. For individuals 65 and over, any health insurance other than a Medicare supplement policy

# HSA Distribution

- Keep all qualified medical receipts:
  - May need to prove to the IRS that distributions from HSA were medical expenses
  - Might need to prove to the insurance company that the deductible was met under the HDHP

# HSA Accounts

- No “use it or lose it” like Flexible Spending Arrangements
- Accounts are owned by the employee
- Accounts can grow through investment earnings, just like an IRA
- Once accounts reach a specific amount, balances can be invested in fund,
  - i.e., once a balance of \$3,000 is reached, \$1000 may be transferred into the HSA investment options
- Rollover from other HSAs and one time IRA transfers permitted\*
  - \*See IRS code section 408(d)(9) for IRA to HSA guidelines

# Reduce Your Current Taxes

Your contributions go into the plan before they're taxed. As a result, you have lowered your taxable income.

	Without HSA	With HSA
Taxable Income	\$30,000	\$30,000
HSA Contribution	-	\$2,100
Net Taxable Income	\$30,000	\$27,900
Estimated Taxes Due	\$4,109	\$3,794
Tax Savings		\$315

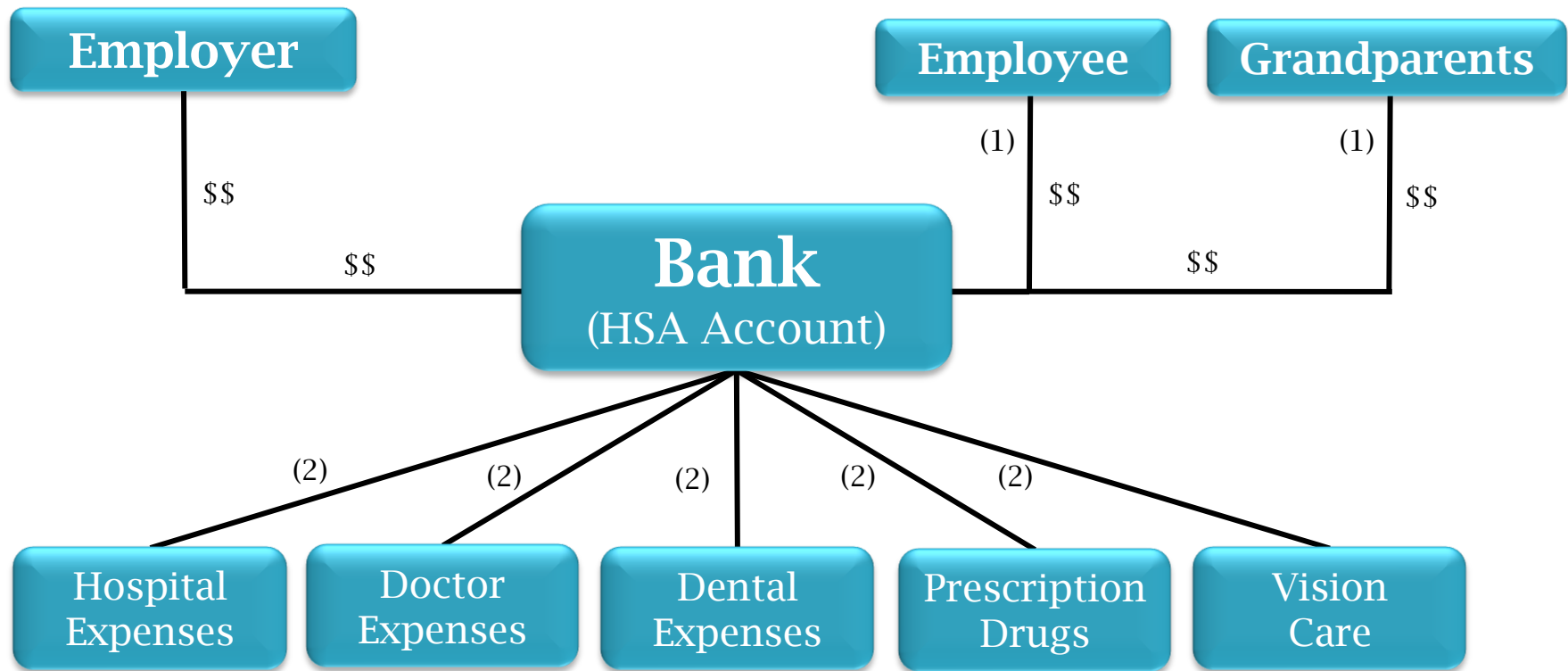
# Benefits Comparison

	\$1000 PPO Plan (In Network)*	HDHP 2000 (In Network)*
Deductible (Inv./Fam.)	\$1,000 per Member, 2 Max	\$2,000/\$4,000
Out-of-Pocket Max. (Inv./Fam.)	\$5,000 per Member, 2 Max (Deductible not Included)	\$3,500/\$7,000 (Deductible Included)
Lifetime Maximum	Unlimited	Unlimited
Doctor Office Visits	\$25	0% After Deductible; Except Preventative Care
Hospitalization	30% After Deductible	20% After Deductible
Generic Rx Co-Pay	\$15 Co-Pay	\$10 After Deductible
Brand Rx Co-Pay	\$40 Co-Pay	\$30 After Deductible
Non-Formulary Co-Pay	\$50 Co-Pay	\$50 After Deductible

*\* Please see the Benefit Outline for details on benefits, limitations, and exclusions.*

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# Potential HSA Savings

- HSA may be allowed to grow for future use. The following is an example of potential values at age for an HSA earning 3%\*:

Starting	Annual Deposits				
Age	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000
60	\$5,468	\$10,937	\$16,405	\$21,874	\$27,342
50	\$19,157	\$38,314	\$57,471	\$76,628	\$95,784
40	\$37,553	\$75,106	\$112,659	\$150,212	\$187,765
30	\$62,276	\$124,552	\$186,828	\$249,104	\$311,380
20	\$95,501	\$191,003	\$286,504	\$382,006	\$477,507

- This is an example only, actual results will depend on actual deposits made and interest applied by your bank/custodian.
- \$3,050 for Individuals; \$6,150 for Family; For 55 and older, an additional “catch-up” contribution of \$1,000

# HSA...

***THE ONLY WAY TO SAVE FOR  
FUTURE HEALTH CARE EXPENSES  
WITH PRE-TAX DOLLARS***

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