Background Information from Congressman Joe Pitts

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HSAs Are Good News for All Americans

FACT SHEET: Guidance Released on Health Savings Accounts (HSAs)

TODAY'S PRESIDENTIAL ACTION

- Today, the Bush Administration issued guidance on the new Health Savings Accounts (HSAs), which were established by the Medicare Prescription Drug, Improvement, and Modernization Act signed by President Bush on December 8, 2003. The new law will create HSAs effective January 1, 2004.
- The President promised rapid action to implement the Medicare Act. The Department of Health and Human Services issued regulations for the discount drug card within two days of the bill signing. Today, the Department of the Treasury released guidance for HSAs.
- These tax-free accounts are designed to help individuals save for qualified health expenses that they, their spouse, or their dependents incur. An individual who is covered by a high deductible health plan can make a tax-deductible contribution to an HSA, and use it to pay for out-of-pocket medical expenses. This will help more American families get the health care they need at a price they can afford.

BACKGROUND ON HEALTH SAVINGS ACCOUNTS

- The bipartisan Medicare Prescription Drug, Improvement, and Modernization Act includes a provision for establishing HSAs. HSAs are tax-free savings accounts that can be used to pay for medical expenses incurred by individuals, spouses, or dependents.
- HSAs are open to individuals covered by a high deductible health insurance plan. The annual deductible must be at least $1,000 for individual coverage, and at least $2,000 for family coverage. HSAs are a significant improvement over previous savings vehicles, which were limited to employees of small businesses and the self-employed and required health insurance policies with much higher deductibles. Individuals with existing medical savings accounts (MSAs) can either retain them or roll the amounts over into a new HSA.
- Contributions to HSAs by individuals are deductible, even if the taxpayer does not itemize. Contributions by an employer

are not included in the individual's taxable income. Individuals, their employers, or both can contribute tax-deductible funds each year up to the amount of the policy's annual deductible, subject to a cap of $2,600 for individuals and $5,150 for families. In addition, individuals over age 55 can make extra contributions to their accounts ($500 in 2004, increasing to $1000 by 2009) and still enjoy the same tax advantages.

- The interest and investment earnings generated by the account are also not taxable while in the HSA.
- Amounts distributed are not taxable as long as they are used to pay for qualified medical expenses. HSA funds can be used to cover the health insurance deductible and any co-payments for medical services, prescriptions, or products. In addition, HSA funds can be used to purchase over-the-counter drugs and long-term care insurance, and to pay health insurance premiums during any period of unemployment. Amounts distributed that are not used to pay for qualified medical expenses will be taxable, plus a 10% penalty to be applied to deter the use of the HSA for non-medical purposes.
- HSAs are portable, so an individual is not dependent on a particular employer to enjoy the advantages of having an HSA. Like an individual retirement account (IRA), the HSA is owned by the individual, not the employer. If the individual changes jobs, the HSA goes with the individual.

TREASURY DEPARTMENT

Today's guidance[1] (Notice 2004-2) provides, in a question and answer format, information about what HSAs are, who can have HSAs, how to establish them and the basic rules for contributions and withdrawals from HSAs. While many of the rules follow previous guidance issued for Archer MSAs, they also address new issues specific to HSAs. In addition to the basic information about HSAs, the guidance provides the following clarifications:

- Employer contributions to employee HSAs are not subject to FICA taxes.
- An HSA is allowed for employees covered by an employer self-insured medical reimbursement plan with a qualifying high-deductible.
- Like MSAs, trustees or custodians are not required to determine if withdrawals are used for medical expenses.
- Special rules are provided for determining the deductible for high-deductible family coverage.
- Like MSAs, in addition to banks and insurance companies, persons may be approved as HSA custodians under the IRA nonbank trustee rules – and existing IRA or Archer MSA trustees or custodians are automatically approved.
- While an HSA trustee or custodian that does not sponsor the high-deductible health plan may request proof or certification that someone is eligible to contribute to the HSA, it is not required.

[1] Can be viewed at: http://www.treas.gov/press/releases/reports/1061notice20042.pdf

- Otherwise eligible individuals without earnings may contribute to an HSA – including self-employed and unemployed.

Treasury and the IRS intend to issue additional guidance in the summer of 2004. To that end, today's Notice requests comments concerning HSAs, including –

- What kinds of preventive care can be offered without a deductible in a high-deductible health plan?
- What is the relationship of HSAs to Flexible Spending Arrangements and Health Reimbursement Arrangements?
- Are high-deductible plans used in conjunction with an HSA allowed to impose a lifetime limit on benefits?

For more detailed information on today's action, read the Treasury Department's announcement on HSAs at: http://www.treas.gov/press/releases/js1061.htm.