VERMONT DEPARTMENT OF BANKING, INSURANCE,
SECURITIES AND HEALTH CARE ADMINISTRATION

# Health Savings Accounts

## Vermont Consumer Handbook – January 2011

## OTHER FORMATS FOR THIS PUBLICATION

**This publication is also available on the Department's website at www.bishca.state.vt.us, using the Division of Health Care Administration's "Consumer Publications" link.**

**To speak with a health insurance consumer specialist call 1-800-631-7788.**

**Persons with hearing impairments may contact the Vermont Relay Service at 1-800-253-0191 (TTY), or 1-800-253-0195 (voice).**

**Persons with reading or visual impairments may contact the Vermont Association for the Blind and Visually Impaired (VABVI) at:**

**1-877-350-8840 Brattleboro**
**1-877-350-8838 Montpelier**
**1-877-350-8839 Rutland**
**1-800-639-5861 South Burlington**

# Introduction

***Much of the information contained in this handbook is provided courtesy of The U.S. Department of Treasury.***

## What is a Health Savings Account?

A Health Savings Account (HSA) is a special type of account that you set-up through a trustee to pay or reimburse certain medical expenses. An HSA is used in conjunction with a "High Deductible Health Plan" (HDHP). You own and control the money in your HSA. There are certain advantages to putting money into these accounts, including favorable tax treatment.

## What is a High Deductible Health Plan?

A High Deductible Health Plan (HDHP) is a health insurance plan that has a high deductible. A deductible is the amount of money you pay for health care expenses covered by your carrier before your health insurance begins to pay. The Internal Revenue Code defines a HDHP as follows:

- For 2011, A HDHP is a health insurance plan with an annual deductible that is not less than $1,200 for one-person coverage or $2,400 for family coverage.
- For 2011, HDHP annual out-of-pocket costs (including deductibles, co-pays, and other amounts, but not premiums) cannot exceed $5,950 for one-person coverage or $11,900 for family coverage.

## Who Can Have an HSA?

To be eligible to establish an HSA you must:

- be covered by a HSA-compatible high-deductible health plan (HDHP) .
- not be covered by other health insurance. For example, if your spouse has traditional health insurance and you are covered under that, you can't contribute to a HSA.

You are not eligible if you're:

- enrolled in Medicare.
- claimed as a dependent on someone else's tax return.

## How does it work?

Your HSA can be used to pay for deductibles, co-pays and any uncovered qualified medical expenses. You can use funds from your HSA account to pay for expenses like dental care or vision care (including eyeglasses) or hearing aids not covered by your health insurance. However, beginning in 2011, over the counter medications cannot be paid with HSA dollars without a doctor's prescription. Health insurance premiums cannot be paid with HSA funds unless the premiums are for health care continuation coverage (i.e., COBRA), long-term care insurance, or Medicare and other health care coverage if you are 65 or older.

HSAs can be invested and grow tax-free until you need to access the money to pay for qualified medical expenses. Payouts for qualified medical expenses are tax-free. You may have to show proper documentation.

## HSA Contributions

Contributions to your HSA can be made by you, your employer, or both. Contributions from an employer may be made on a pre-tax basis. If this option is not available through your employer, contributions may be made on a post-tax basis and then used to decrease gross taxable income on the following year's tax Form 1040. If you are self-employed you must pay self-employment tax on your contributions. There is an annual limitation on total contributions. A catch-up provision applies for plan participants who are age 55 or over.

All contributions to an HSA, regardless of source (made by you or your employer), count toward the annual maximum.

You may continue to contribute to the account until you enrolled in Medicare. At that time, you can no longer contribute; however, you can keep the money in your account and use it pay for qualified medical expenses tax-free after you are enrolled in Medicare.

### Annual Contribution Limitation

| Year | Contribution Limit (Single) | Contribution Limit (Family) | Catch-up Contribution (55 or older) (Single and Family) |
|---|---|---|---|
| 2011 | $3,050 | $6,150 | $1,000 |

## Need More Information?

**For more information about HSAs and HDHPs, contact:**

**The U.S Treasury Department**
http://www.treasury.gov/resource-center/tax-policy/Pages/Health-Savings-Accounts.aspx

**Blue Cross Blue Shield of Vermont**
Phone: 800-247–2583
www.bcbsvt.com

**MVP Health Plan**
Phone: 800-380-3530
www.mvphealthcare.com

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