



A Health Savings Account (HSA) is an individual Tax-exempt Trust Account set up in conjunction with an IRS approved high deductible health plan. It is designed to pay for qualified medical expenses and/or provide savings for the future

#### Contributions

- Contributions deposited in lump sum or smaller amounts;
- Made on first of year or throughout the year;
- Can be made by employer and employee;
- Full contributions made by April 15 of the following
- Maximum Annual Contribution for 2008: Single \$2,900; 2-Person/Family \$5,800

#### Withdrawals

Pay for medical expenses on tax-free basis

- Medical expenses include “ordinary medical expenses” as defined by Blue Cross Blue Shield of Vermont. **And** “other” expenses as defined by IRS Publication 502 (Examples: Dental, Vision, Orthodontia, Acupuncture, etc)
- COBRA continuation coverage;
- Insurance premiums while on unemployment compensation;
- Long-term care insurance premiums;
- Penalty-free withdrawals for non-medical expenses upon disability, death, or at age 65;
- 10% penalty **and** income taxes due on withdrawals for Non-qualified expenses. *Exception: Penalty-free withdrawals for non-medical expenses upon disability, death or at age 65.*
- Distributions for medical expenses for someone who is not a federally recognized dependent (i.e., a non-dependent domestic partner/party to a civil union) are not allowed and would be included as income and subject to the 10% penalty if not age 65.

#### HSA Account Funding

- Account may earn tax-deferred income;
- Account funds may be accumulated for the future;
- Interest bearing checking account;
- Not required to use HSA funds to pay current medical bills;
- Payments via Check Writing and Debit Card;
- Monthly ACH deposit available at no additional cost (bank draft);

**Increase in annual HSA contribution.** Previously, the maximum HSA contribution was the lesser of the deductible of the individual's HSA-eligible plan or a statutory maximum. The new rules make the limit the statutory maximum contribution, regardless of the individual's deductible. For 2008, the maximum contribution for an eligible individual with self-only coverage is \$2,900, and the maximum contribution for an eligible individual with family coverage is \$5,800. These limits are indexed for inflation.

Catch up contributions for individuals who are 55 or older is increased by statute to \$900 for 2008

**Full HSA contribution regardless of month individual becomes eligible.** Both the HSA contribution and catch up contribution apply pro rata based on the number of months of the year a taxpayer is an eligible individual. Under recently enacted legislation, if you have HDHP coverage as of December 1, 2007, you are allowed the full, non-pro rated contribution for the year. However, if you cease to remain an eligible individual throughout 2008, the extra amount contributed is included in income and subject to an additional 10 percent tax.