Health Savings Account (HSA)

An antidote to skyrocketing medical costs.

"An ounce of prevention is worth a pound of cure."

Benjamin Franklin's words still ring true, especially when you consider how rapidly health care costs have escalated in the past couple of decades.

If you're covered under a high-deductible health plan (HDHP), and you're looking to build and maintain a sizable financial buffer to pay for your family's medical expenses, a Health Savings Account (HSA) – offers three very important tax advantages you need to know about:

*First, **all contributions you make to your HSA are tax-deductible** – regardless of your income level or whether you itemize deductions.*

*Second, **your earnings are 100% tax-free** while they are in your HSA, which makes for faster growth than a comparable taxable investment.*

*Last, but certainly not least, **the money you take out to pay for qualified medical expenses is completely tax-free!***

A Health Savings Account may be just the shot in the arm you need to rally against rising medical costs. But the sooner you start contributing, the more money you'll have when you need it most!

(800) 642-7515

www.firstcitizens.org

Federally insured by NCUA

HSA0511

©2012 PMC

Help for High-Deductible Health Plans

HSA

Health Savings Account

A prescription for the high cost of health care.

"Who can contribute to an HSA?"

You can contribute to an HSA if: 1) you are covered under a high-deductible health plan (HDHP); 2) you are not covered by any other health plan that is not an HDHP (except certain plans that provide specific limited types of coverage); 3) you are not enrolled in Medicare; and 4) you cannot be claimed as a dependent on another person's tax return.

"How does a high-deductible health plan differ from other health insurance plans?"

An HDHP is a less expensive alternative to traditional health insurance. For 2011 and 2012, your minimum annual deductible is $1,200 for self-only coverage and $2,400 for family coverage. After you have met the deductible, the plan covers your medical expenses; however, you may have a co-pay under the plan until you pay the maximum out-of-pocket costs. After that, the plan pays 100% of your qualified expenses.

"What about out-of-pocket costs?"

For 2011, your total out-of-pocket expenses (including deductibles and co-pays) cannot exceed $5,950 for self-only coverage and $11,900 for family coverage. These increase to $6,050 and $12,100 for 2012.

"What are the contribution limits?"

For 2011, if you have self-only HDHP coverage, the maximum you can contribute to your HSA is $3,050. This increases to $3,100 for 2012. If you have family HDHP coverage, the most you can contribute for 2011 is $6,150. This increases to $6,250 for 2012.

If you are age 55 or older, you can make "catch-up" contributions to help you accumulate more money to help pay for medical expenses. This means that for 2011 and 2012, you can kick in an additional $1,000.

If you have family HDHP coverage, HSA contributions can be made either to one spouse's HSA or split between both spouses' HSAs. If each spouse is age 55 or older, each spouse is eligible to make a catch-up contribution. However, if only one spouse is age 55 or older, catchup contributions can be made only to that spouse's HSA.

Rollovers from other HSAs are allowed and are not subject to contribution limits.

"What are qualified medical expenses?"

"Qualified medical expenses" are those paid for medical care not covered by insurance and incurred after you open your HSA. Such expenses include medical, dental (including braces), vision, chiropractic, and even acupuncture treatments. Starting in 2011, over-the-counter drugs, except for insulin, are considered qualified medical expenses only if they are prescribed by a physician.

Distributions used to pay for qualified medical expenses are tax-free and may be taken at any time. However, any portion of the distribution that is not used for a qualifying medical expense is taxable and may be subject to an additional 20% penalty tax (10% before 2011). This penalty does not apply to distributions made after your death, while you are disabled, or after you reach age 65.

"Can I name a beneficiary?"

Yes. Upon your death, if your spouse is your beneficiary, your HSA becomes his or her HSA, and tax is paid only on distributions taken for non-qualifying expenses. If your beneficiary is not your spouse, your HSA terminates when you die and the assets are deemed taxable income to your beneficiary.

Important! The tax rules can often be complicated. This brochure is meant solely as an overview. Before making any decisions, you should speak with a qualified tax advisor.