

## Plan Designs

### Health Savings Accounts

In an effort to respond to the rising costs of health care, many employers are offering tax-favored accounts, such as health flexible spending accounts (health FSAs), health reimbursement arrangements (HRAs) and health savings accounts (HSAs).

#### **What is a health savings account?**

An HSA is a tax-exempt trust or custodial account established for the purpose of paying qualified medical expenses. An HSA accompanies a high deductible health plan (HDHP).

HSAs can be a powerful tax savings tool. In general, HSA contributions made by an eligible individual are tax-deductible, and employer HSA contributions made on behalf of an eligible employee are excluded from the employee's gross income. Interest and other earnings on HSA contributions accumulate tax-free. Amounts distributed from an HSA for qualified medical expenses are generally tax-free as well.

Keep in mind that some states define income differently than the IRS. As a result, HSAs that are tax-exempt at the federal level may not be tax-exempt at the state level.

#### **Who can establish an HSA?**

An individual may contribute to an HSA in any month in which he or she is covered under an HDHP on the first day of the month. The individual cannot be covered by another health plan that is not an HDHP (with certain exceptions), and he or she cannot be entitled to Medicare benefits or be claimed on another person's tax return. Self-employed individuals are eligible to establish an HSA.

#### **What expenses are eligible for tax-free reimbursement from an HSA?**

An HSA may reimburse qualified medical expenses incurred by the account beneficiary and his or her spouse and dependents. In addition to qualified medical expenses, COBRA premiums, health insurance premiums and qualified long-term care (QLTC) premiums may be reimbursed from an HSA. A full list of qualified medical expenses can be found [here](#).

#### **What expenses are not eligible for tax-free reimbursement from an HSA?**

The following expenses may not be reimbursed from an HSA: