

Contributions to a Health Savings Account (HSA)

Maximum Contributions

For 2008, the maximum you may contribute to a Health Savings Account (HSA) is \$2,900 for single coverage or \$5,800 for family coverage. Minimum HDHP deductibles are \$1,100 for individuals and \$2,200 for families. (See Catch-Up if age 55 or over)

If you're HSA-qualified coverage began in any month other than January and no later than December 1st, 2008, you can still make the full HSA contribution for the calendar year 2008. For example, if your coverage under an HSA-qualified policy did not begin until July 2008, you can contribute the full \$2,900 self-only coverage or \$5,800 for family coverage for 2008. However, you must keep your HSA-qualified coverage through at least the end of the following calendar year which would be December 31st, 2009 or you may have to pay back some of the contribution (and maybe interest and penalties). If you know that your not going to keep your HDHP for one reason or another until December 31st, 2009 you may be better off prorating your contributions for 2008 and 2009.

For any year that you drop or lose your HSA-qualified coverage before the end of the year, you will not be able to make the full contribution to your HSA. You will need to pro-rate your contribution for that year. Count only those months for which you had HSA-qualified coverage on the first day of the month. For example, if you drop your HSA-qualified coverage at the end of June, you would only be able to contribute 50% of your allowed contribution for that year.

Minimum Contributions

After you establish your HSA, you have no legal obligation, per HSA regulations, to make additional contributions, even if you continue coverage under a High-Deductible Health Plan (HDHP).

Catch-Up Contributions

Because a new savings program tends to favor younger people with more time to save, a "catch up" provision was included with HSA regulations. HSA holders age 55 and older may make additional annual contributions of \$900 for 2008, increasing by \$100 each year to a maximum additional calendar year contribution of \$1000 in 2009.

Employer Contributions

An employer may contribute to an employee's Health Savings Account (HSA), but the employer must make available comparable contributions on behalf of all "comparable participating employees." Contributions are considered comparable if they are the same amount or same percentage of the High-Deductible Health Plan (HDHP) deductible.

Partial Year Contributions

Full HSA contribution regardless of month individual becomes eligible. Individuals who become covered under an HSA-eligible plan in a month other than January are allowed to make the maximum HSA contribution for the year. If an individual does not stay in the HSA-eligible plan 12 months following the last month of the year of the first year of eligibility, the amount which could not have been contributed except for this provision will be included in income and subject to a 10 percent additional tax.

Contribution Deadlines

HSA contributions must be made for a specific year on or before the due date (without extensions) for filing tax returns for that year. So, for 2007, contributions must be made on or before April 15, 2008.

Higher HDHP Deductibles

You may purchase a High-Deductible Health Plan (HDHP) with a deductible beyond the HSA contribution limit. For example, a single person can purchase a \$5000 deductible HDHP. However, that person's maximum 2008 HSA contribution would be limited to the \$2,900 cap for single coverage. A family can purchase a \$10,000 deductible HDHP with a maximum 2008 HSA contribution would be limited to the \$5,800 cap.

HSA Contributions must be Cash

Health Savings Account (HSA) contributions must be in cash. For example, contributions can not be made in stock or other property.

Rollovers are Permitted

Rollover contributions from Archer MSAs and other HSAs are permitted. Rollovers are not subject to the annual contribution limits and rollover contributions need not be in cash.

One-time transfer from IRAs to HSAs.

A one-time contribution to an HSA of amounts distributed from an Individual Retirement Arrangement (IRA). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to the early withdrawal additional tax. The transfer is limited to the maximum HSA contribution for the year, and the amount contributed is not allowed as a deduction. Generally, only one transfer may be made during the lifetime of an individual. If an individual electing the one-time transfer does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax.

Excess HSA Contributions

Contributions by an individual are not deductible to the extent they exceed the maximum limits. Excess contributions by an employer generate taxable income to the employee. In addition, a 6% excise tax is imposed on the excess funds.

The excise tax and any net income attributable to excess contributions are avoided if the excess contributions are paid to the HSA owner prior to federal income tax deadline for the year at issue.

Investment earnings accrue tax-free.

HSA distributions are tax-free if they are used to pay for qualified medical expenses. Qualified expenses include prescription drugs, qualified long-term care services and long-term care insurance, COBRA coverage, Medicare expenses (but not Medigap), and retiree health expenses for individuals age 65 and older.

Distributions made for any other purpose are subject to income tax and a 10% penalty. The 10% penalty is waived in the case of death or disability. The 10% penalty is also waived for distributions made by individuals age 65 and older.

Upon death, HSA ownership may transfer to the spouse on a tax-free basis.