- HDHPs generally have modest premium costs and may be an effective cost-containment mechanism.
- The employer is protected against potentially catastrophic healthcare expenses.
- The HSA may serve the dual purpose of providing for both medical and retirement expenses.

How Much Can I Contribute to an HSA?

The total amount you may make or receive as an HSA contribution is dependent upon whether you have self-only or family coverage under an HDHP as shown in the table below:

HSA Contribution Limits*		
Year	Self-Only Coverage	Family Coverage
2008	$2,900	$5,800
2009	$3,000	$5,950

**Subject to potential cost-of-living increases.*

In addition to the standard HSA contribution limit, if you have attained age 55 before the close of a taxable year, you also may contribute an additional amount known as a "catch-up" contribution, as shown in the table below:

Catch-Up Contribution Limits	
Taxable Year	Maximum Catch-Up
2008	$900
2009 and beyond	$1,000

Are Cash Contributions the Only Way to Fund an HSA?

There are other ways to fund an HSA.

- If you have money in an Archer medical savings account, you may roll that money to an HSA.
- Certain individuals may move assets from health flexible spending accounts (FSAs) or employer-sponsored health reimbursement arrangements (HRAs) to HSAs.
- Individuals have a one-time option to move IRA assets to an HSA. This transaction, however, is limited to the annual HSA contribution amount.

Because certain restrictions apply to these options, you should seek competent tax advice before completing the transaction.

Do HSAs Require Reporting?

HSAs require the following government reporting:

- HSA owners report contributions and distributions on their income tax returns.
- An employer contribution is reported on a business tax return, as well as on employees' Form W-2.
- Financial organizations report contributions and distributions to the IRS and to HSA owners.

Lutheran Church Extension Fund
HSA Program*
PO Box 229005
St. Louis, MO 63122-9722
1-800-843-5233 • www.lcef.org

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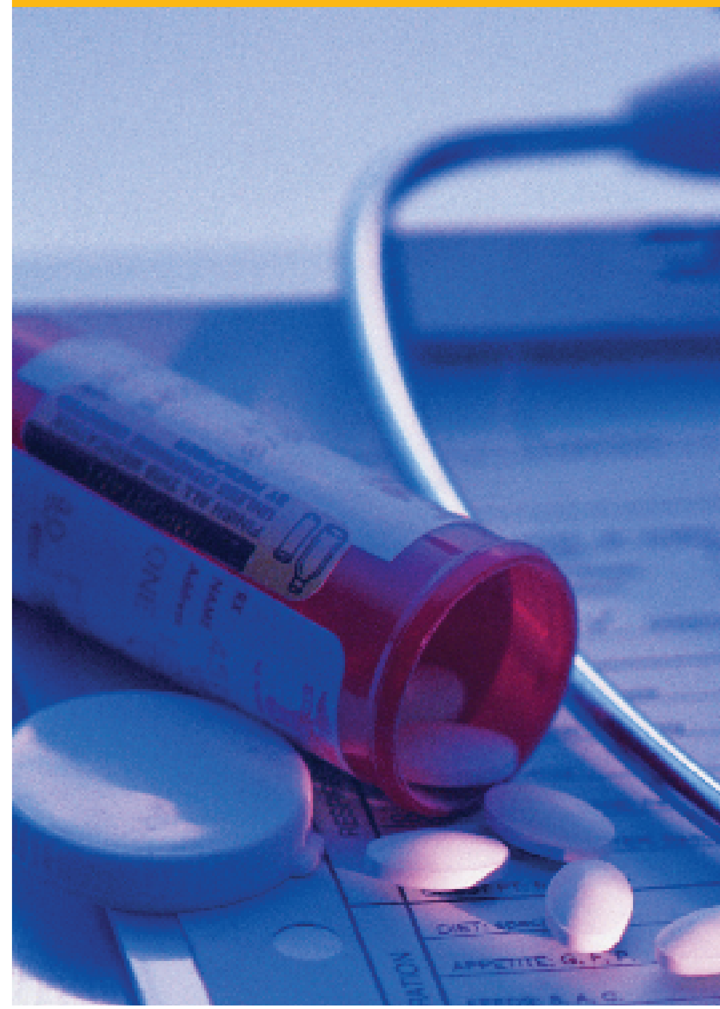
Health Savings Accounts

A Tax Advantage to Offset Healthcare Expenses



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Health Savings Accounts (HSAs) are tax-favored savings arrangements for individuals covered by high deductible health plans (HDHPs). With HDHP coverage, an individual must pay for a certain amount of medical expenses before the HDHP begins to pay for medical expenses. In exchange for paying a certain amount upfront, individuals enjoy less expensive insurance premiums. Individuals can use the money they save in an HSA to pay for medical expenses incurred by themselves, their spouses, or their dependents.

Who is Eligible for an HSA?

You are an eligible individual for any month if you:

- are covered under an HDHP on the first day of such month;
- are not also covered by any other health plan that is not an HDHP (with limited exceptions);
- are not enrolled in Medicare; and
- are not eligible to be claimed as a dependent on another person's tax return.

Employer contributions to an HSA reduce the amount that you may contribute, but they do not eliminate your option to contribute to an HSA.

Am I HSA-eligible if I Participate in a Health Flexible Spending Account (FSA or Cafeteria Plan) Through my Employer?

Maybe. If you are entitled to receive payment or reimbursement from a health FSA or health reimbursement arrangement (HRA) for medical expenses incurred before the HDHP deductible is satisfied, you are not HSA-eligible. The exceptions to this rule are health FSAs and HRAs that are designed to be HSA-compatible because they:

1. Limit the types of expenses eligible for reimbursement, or
2. Limit the individuals whose expenses can be reimbursed (e.g. dependents only).

What is an HDHP?

An HDHP is an insurance policy that meets certain dollar limits as shown in the table below:

HDHP Limits		
	Self-Only Coverage	Family Coverage
Minimum Annual Deductible*	$1,100 for 2008 $1,150 for 2009	$2,200 for 2008 $2,300 for 2009
Maximum Out-of-pocket Expenses**	$5,600 for 2008 $5,800 for 2009	$11,200 for 2008 $11,600 for 2009

These amounts will continue to be adjusted for cost-of-living increases.

* Preventive care need not be subject to the minimum annual deductible.
** The limit for maximum out-of-pocket expenses includes deductibles, co-payments, and other amounts, but not premiums.

If the plan does not meet both the deductible and out-of-pocket expense restrictions, it is not considered an HSA-eligible HDHP.

What Are the Benefits of an HSA?

HSAs can provide significant tax benefits. Not only can they provide tax benefits related to paying qualified medical expenses, they may also serve as additional income for retirement.

Tax Benefits

- Your HSA contributions are tax-deductible.
- HSA contributions made by your employer are excluded from your income.
- HSA earnings are tax-deferred.
- If used for qualified medical expenses, HSA assets are tax-free.
- HSA assets become the property of a named beneficiary or of the HSA owner's estate upon an HSA owner's death. A spouse beneficiary may treat the HSA as his or her own, while nonspouse beneficiaries must treat such inherited HSA assets as ordinary taxable income.

What Are "Qualified Medical Expenses"?

For HSA assets to retain their tax-free status, they must be withdrawn and used for certain qualified medical expenses. Qualified medical expenses are generally expenses that qualify for the medical and dental income tax deductions as defined in IRS Publication 502. Expenses paid with HSA assets cannot also be claimed as a deduction on your income taxes. Here are some examples:

- Medical expenses, including doctor visits, prescriptions, transportation to get medical care, and certain dental and vision care;
- Qualified long-term care insurance;
- Health plan premiums when unemployed;
- Health plan premiums during COBRA (continuation-of-benefit) coverage; and
- Certain health insurance after age 65.

Nonqualified uses of HSA assets are subject to taxation and a 10% penalty unless the HSA owner is age 65 or older, dies, or is disabled.

Can Self-Employed Individuals Have an HSA?

Sole proprietors and others who are self-employed can have an HSA and are often ideal candidates for an HSA. HSAs are often advantageous for self-employed individuals because: