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Questions and Answers on the Health Savings Account (HSA)

General Information

Health Savings Accounts (HSAs) were signed by the President on December 8, 2003. Fortis Health, a national leader in Medical Savings Accounts (MSAs), has fully supported HSAs and was at the forefront of the legislation. HSAs are a significant expansion of the current MSAs.

Q. *What is a Health Savings Account?*

A. An HSA works like an IRA, except that money is used to pay health care costs. Participants enroll in a relatively inexpensive high deductible insurance plan. Then, a tax-deductible savings account may be opened to cover current and future medical expenses. The money deposited, as well as the earnings, is tax-deferred. The money can then be withdrawn to cover qualified medical expenses tax-free. Unused balances roll over from year to year.

Q. *Who can qualify?*

A. Anyone with a qualified high deductible insurance plan will be eligible for a tax-deductible HSA.

Q. *Who can contribute to an HSA?*

A. Individuals, employers and their employees. There are no restrictions.

Q. *How much can be contributed to the HSA in 2004?*

A. Annual contribution limits for 2004 are capped at either the high deductible or \$2,600 for individual and \$5,150 for family – whichever amount is less.

- The annual maximum HSA contribution will change each January 1st based on the CPI. There are no maximum limits on the account accumulation.
- The legislation provides for an additional contribution (and tax deduction) for those who turn age 55 before the end of the tax year. The additional contribution amount is \$500 for 2004 and increases annually to an additional \$1,000 in 2009.

Q. What can HSA funds be used for?

A. The funds belong to the individual or employee. Funds can be withdrawn for any purpose, however, if not withdrawn for qualified medical expenses by someone under age 65, the amount withdrawn is taxable and subject to a 10% penalty by the IRS. After age 65, there is no penalty for non-qualified withdrawals but amounts are taxable.

Funds used to pay for the following are **tax-free** and **penalty-free**:

- Qualified medical expenses as defined under Section 213 of the IRS Code. This is the same code section that governs MSAs.
- COBRA insurance.
- Qualified long-term care insurance and expenses.
- Health insurance premiums for individuals receiving unemployment compensation.
- Medicare and retiree health insurance premiums, but not Medicare Supplement premiums.

Q. Is an HSA allowed for those small business owners who are not eligible for an HRA?

A. Yes.

Q. What is the difference between a Medical Savings Account and a Health Savings Account?

A. HSAs are a significant expansion of the MSA program. Unlike MSAs, HSAs provide the following:

- Everyone with a qualified high deductible plan is eligible to participate (includes all size employers, the self-employed, individual and families who are not self-employed).
- HSAs can be funded by the employer, employee or combination of both within the same calendar year.
- HSAs are permanent and portable.
- HSAs allow for larger tax-deferred contributions to custodial accounts.
- There are broader deductible ranges.

Q. What is a high deductible insurance plan?

A. For 2004, a high deductible insurance plan is defined as a health plan with a minimum deductible of \$1000 for self-only coverage and \$2,000 for family coverage. The maximum out-of-pocket expenses for allowed costs must be no more than \$5,000 for self-only coverage and no more than \$10,000 for family.

Q. When will Fortis Health start offering HSAs?

A. Health Savings Accounts are available for plans effective January 1, 2004.

Q. Will the MSA continue to be available? What about existing MSA accounts?

A. • MSAs are scheduled to end December 31, 2003.
• Existing accounts can either be “grandfathered” or they can move to an HSA. Information on moving from an existing MSA to an HSA will be forthcoming.

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