

Copied from Wikipedia ([http://en.wikipedia.org/wiki/Health\\_savings\\_account](http://en.wikipedia.org/wiki/Health_savings_account)):

A **Health Savings Account (HSA)** is a tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in a High Deductible Health Plan (HDHP). The funds contributed to the account are not subject to federal income tax at the time of deposit. Unlike a Flexible spending account (FSA), funds roll over and accumulate year over year if not spent. HSAs are owned by the individual, which differentiates them from the company-owned Health Reimbursement Arrangement (HRA) that is an alternate tax-deductible source of funds paired with HDHPs. Funds may be used to pay for qualified medical expenses at any time without federal tax liability. Withdrawals for non-medical expenses are treated very similarly to those in an IRA account in that they may provide tax advantages if taken after retirement age, and they incur penalties if taken earlier. These accounts are a component of consumer driven health care.

How they work

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Deposits to a HSA may be made by any policyholder of an HSA-eligible high-deductible health plan or by their employer, or any other person. If an employer makes deposits to such a plan on behalf of its employees, non-discrimination rules still apply — that is, all employees must be treated equally. However, if contributions are made through a Section 125 plan, non-discrimination rules do not apply. Employers may treat full-time and part-time employees differently, and employers may treat individual and family participants differently. (The treatment of employees who are not enrolled in a HSA-eligible high-deductible plan is not considered for non-discrimination purposes.) Also, for 2007, employers may contribute more for non-highly compensated employees than highly compensated employees.

All deposits to an HSA become the property of the policyholder, regardless of the source of the deposit. Funds deposited but not withdrawn each year will carry over into the next year. If the policyholder ends their HSA-eligible insurance coverage, he or she loses eligibility to deposit further funds, but funds already in the HSA remain available for use.

### **Withdrawals**

HSA participants do not have to obtain advance approval from their HSA trustee or their medical insurer to withdraw funds, and the funds are not subject to income taxation if made for qualified medical expenses. These include costs for services and items covered by the health plan but subject to cost sharing such as a deductible and coinsurance, or co-payments, as well as many other expenses not covered under medical plans, such as dental, vision and chiropractic care; durable medical equipment such as eyeglasses and hearing aids; and transportation expenses related to medical care. Non-prescription, over-the-counter medications are also eligible.[8] [9]

There are several ways that funds in an HSA can be withdrawn. Some HSAs include a debit card, some supply checks for account holder use, and some allow for a reimbursement process similar to medical insurance. Most HSAs have more than one possible method for withdrawal. The exact method of withdrawal varies from HSA to HSA and can be considered a marketing design issue. Checks and debits do not have to be made payable to the provider. Funds can be withdrawn for any reason, but withdrawals that are not for documented qualified medical expenses are subject to income taxes and a 10% penalty. The 10% tax penalty is waived for persons who have reached the age of 65 or have become disabled at the time of the withdrawal. Then, only income tax is paid on the withdrawal, and in effect the account has grown tax deferred (similar to an IRA). Medical expenses continue to be tax free.

Account holders are required to retain documentation for their qualified medical expenses. Failure to retain and provide documentation could cause the IRS to rule withdrawals were not for qualified medical expenses and subject the taxpayer to additional penalties.[10]