

Health Savings Accounts

A Health Savings Account is a tax-advantaged way for consumers to pay for many medical expenses. Unlike Flexible Savings Accounts the money in your HSA can roll over from year to year if you don't use it. You don't have to go through an employer to open an HSA, but you can only open one if you have an HSA-eligible health insurance plan with a high deductible.

“High Deductible” means at least \$1,050 for singles and \$2,100 for families in 2006.

If your employer offers the option, you can contribute your own money to an HSA on a pretax basis by deducting the contributions from your paycheck.

If your employer does not offer this sort of a plan, then you can contribute to an HSA with your own after-tax dollars. If you do this then you can deduct those contributions on your income taxes as an above-the-line deduction. You do not need to itemize to do this, and you do not need to meet the thresholds that an itemized medical expense would have to meet.

If you are enrolled in Medicare are not allowed to open an HSA.

If you already have an HSA from your pre-Medicare days, you cannot contribute to it once you're enrolled in Medicare.

On the other hand, HSA holders 65 and older can spend the money on nonmedical items without penalty, although you will have to pay income taxes on those amounts withdrawn.

Medicare premiums and out-of-pocket costs, such as deductibles and copayments, are considered qualified medical expenses. If you have retiree health insurance through an employer, you can withdraw HSA money tax-free to pay for your share of the premiums.

There is not a way to list every possible medical expense and whether it qualifies as an expense for HAS purposes. The best thing to do is get IRS Publication 502, and use it as a guideline.