



Texas Health Insurance Pool

Plan V: A Qualifying High Deductible Health Plan for Health Savings Accounts

In January 2009 the Pool introduced a High Deductible Health Plan (HDHP) option. This HDHP meets the federal requirements for use with a Health Savings Account (HSA). Please see the second page of this notice for more information about whether you qualify for an HSA. An HSA is a tax-advantaged personal savings account that individuals can use to pay for a wide range of qualified medical expenses. Helpful information about HSAs is available at www.treas.gov. Please note that federal law does not permit you to have other first-dollar medical coverage if you intend to use the Pool's HDHP option as an HSA-Qualified policy.

An HSA is like a 401(k) for health care expenses. The amount you contribute to the account reduces your taxable income, up to an annual limit, even if you don't itemize deductions on your federal income tax return. Interest earned on the funds in the HSA accumulates tax free. Unlike a 401(k), you don't have to wait until retirement age to make withdrawals. After setting up an HSA with the bank of your choice, you may withdraw funds on a tax-free basis to pay for qualified medical expenses. Any balance remaining in the account at year-end rolls over to the following year. Most major banks offer HSAs and many specialty HSA banks can be located through the Internet.

You can set up an HSA to use with the Pool HDHP if you are not enrolled in Medicare, you cannot be claimed as a dependent on someone else's tax return, and you do not have any other first-dollar medical coverage, including coverage through an insurance company or a self-funded employer plan.

There are important coverage differences between the Pool's HDHP and our other Non-HDHP plans. Please consider these differences carefully before making a decision to enroll in the HDHP option. With the exception of preventive care, there are no medical benefits--including sick care physician office visits coverage--provided before the annual \$3,000 medical deductible is met. Further, the annual HDHP deductible for outpatient prescription drug benefits is \$1,450.00 (effective 01/01/11), which is much higher than the pharmacy deductible of the Pool's standard plans. All of these coverage differences are required for the Pool's Plan V option to qualify as an HDHP under federal law.

This summary is for informational purposes only and is not intended as tax or legal advice. Consult a tax and/or legal professional for advice regarding Health Savings Accounts.

Health Savings Accounts¹

Health Savings Accounts

A Health Savings Account (HSA) is an account that you can put money into to save for future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment. HSAs were signed into law by President Bush on December 8, 2003.

Who Can Have an HSA?

Any adult can contribute to an HSA if they:

- Have coverage under an HSA-qualified “high deductible health plan” (HDHP)
- Have no other first-dollar medical coverage (other types of insurance like specific injury insurance or accident, disability, dental care, vision care, or long-term care insurance are permitted).
- Are not enrolled in Medicare.
- Cannot be claimed as a dependent on someone else’s tax return.

Contributions to your HSA can be made by you, your employer or both.

However, the total contributions are limited annually.

If you make a contribution, you can deduct the contributions (even if you do not itemize deductions) when completing your federal income tax return.

Contributions to the account must stop once you are enrolled in Medicare. However, you can keep the money in your account and use it to pay for medical expenses tax-free.

Advantages of HSAs

Security – Your high deductible insurance and HSA protect you against high or unexpected medical bills.

Affordability – You should be able to lower your health insurance premiums by switching to health insurance coverage with a higher deductible.

Savings – You can save the money in your account for future medical expenses and grow your account through investment earnings.

Portability – Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state
- Change your marital status

Flexibility – You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Ownership – Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs.

Control – You make all the decisions about:

- How much money to put into the account
- Whether to save the account for future expenses or pay current medical expenses
- Which medical expenses to pay from the account
- Which company will hold the account
- Whether to invest any of the money in the account
- Which investments to make

Tax Savings – An HSA provides you triple tax savings:

1. Tax deductions when you contribute to your account;
2. Tax-free earnings through investment; and,
3. Tax-free withdrawals for qualified medical expenses.

Opening Your Health Savings Account

Banks, credit unions, insurance companies and other financial institutions are permitted to be trustees or custodians of these accounts.

Other financial institutions that handle IRAs or Archer MSAs are also automatically qualified to establish HSAs.

What Happens to My HSA When I Die?

If your spouse becomes the owner of the account, your spouse can use it as if it were their own HSA. If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to applicable taxes).

Need More Information About HSAs?

Treasury's web site has additional information about Health Savings Accounts, including answers to frequently asked questions, related IRS forms and publications, technical guidance, and links to other helpful web sites. Treasury's HSA web site can be found through www.treas.gov (click on “Health Savings Accounts”) or directly at the following address:
<http://www.treas.gov/offices/public-affairs/hsa/>.

¹Source: United States Department of Treasury (01/2008) “HSA Basics”, <http://www.treas.gov/offices/public-affairs/hsa/>.