South Florida Hospital News and Healthcare Report

THE REGION'S MONTHLY NEWSPAPER FOR HEALTHCARE PROFESSIONALS & PHYSICIANS

Health Savings Accounts (HSAs) and Cafeteria Plans (125)

You've probably heard information about the “new HSAs,” but may be unsure of what they are and/or the requirements. Basically, they are a way to set aside tax-free funds for medical purposes, for eligible individuals. The tax favorable elements are:

- contributions you make to an HSA are deductible, with limits,
- contributions your employer makes aren't taxed to you,
- earnings on the funds within the HSA are not taxed, and

- distributions from the HSA to cover qualified medical expenses are not taxed.

To be eligible for an HSA, you must be covered by a "high deductible health plan." For 2005, this is a plan with an annual deductible of at least $1,000 for single coverage or $2,000 for family coverage. There are also limits, other than premium coverage, on annual out-of-pocket expenses. You cannot be covered by another plan, which is not a high deductible plan or one that provides any benefit covered by your high deductible plan. However, you may have separate coverage for accidents, disability, dental, vision or long-term care.

An HSA may be established by, or on behalf of, any eligible individual. For example, if you are an eligible individual, the amounts contributed to your HSA by your employer, for medical expenses, is excludable from your gross income. Further, these employer contributions are not subject to withholding, FICA or FUTA taxes.

The HSA account is generally exempt from taxation, and there is no tax on earnings. However, taxes may apply if contribution limits are exceeded or distributions are not used for qualified medical expenses. After age 65, distributions may be made from the HSA for nonqualified expenses; however, income tax will be imposed, but not penalties. The HSA may also be rolled over to a beneficiary upon death, much like an IRA.

In a 2004 article, Governor Bush stated, "HSAs provide new opportunities for Floridians to more closely manage their health care costs." HSAs provide a more cost-effective way for employers to offer high-deductible health plans to employees, while employees will have more incentive to save money for medical expenses. At all times, the money in an HSA belongs to the employee; therefore, portable.

On the other hand, if a high deductible plan is not an option for you, your employer may offer a Section 125 Cafeteria Plan for insurance premiums and medical expense reimbursements. A cafeteria plan can be funded with employer contributions, employee contributions, or a combination of both. You could have a lower taxable income where contributions to the cafeteria plan are from pre-tax income. For example, if you are required to contribute a portion of your health insurance premiums (i.e. family/spouse coverage) to your employer, it could be deducted from your gross income before taxes. Also, if the plan allows medical reimbursements, these, too could be deducted from your gross income before taxes. This not only saves you withholding and FICA taxes, but enables you to deduct medical expenses that might not otherwise be deductible in your itemized deductions on your tax return.

If you need further information and/or clarification on how these plans could work for you, please give us a call.

Phone : 561-368-6950

Fax : 561-368-6978

Site Designed By