Committee on Ways and Means

Medicare Prescription Drug, Improvement, and Modernization Act of 2003

Health Savings Accounts (HSAs)

Lifetime Savings for Health Care

Working Years:

Tax-Free Asset Accumulation and Meeting Health Care Needs

- Workers under the age of 65 can accumulate tax-free savings for lifetime health care needs if they have qualified health plans.
    - A qualified health plan has a minimum deductible of $1,000 with a $5,000 cap on out-of-pocket expenses for self-only policies. These amounts are doubled for family policies.
    - Preventive care services are not subject to the deductible.
- Individuals can make pre-tax contributions of up to 100% of the health plan deductible. The maximum annual contribution is $2,600 for individuals with self-only policies and $5,150 for families (indexed annually for inflation).
- Pre-tax contributions can be made by individuals, their employers and family members.
- Individuals age 55 - 65 can make additional pre-tax "catch-up" contributions of up to $1,000 annually (phased in).
- Tax-free distributions are allowed for health care needs not covered by the insurance policy. Tax-free distributions can also be made for continuation coverage required by Federal law (i.e., COBRA), health insurance for the unemployed, and long-term care insurance.
- The individual owns the account. The savings follow the individual from job to job and into retirement.

Retirement Years:
Meeting Retiree Health Needs

- HSA savings can be drawn down to pay for retiree health care once an individual reaches Medicare eligibility age.

- Catch-up contributions during peak saving years allow individuals to build a nest egg to pay for retiree health needs. Catch-up contributions allow a married couple to save an additional $2,000 annually (once fully phased in) if both spouses are at least 55.

- Tax-free distributions can be used to pay for retiree health insurance (with no minimum deductible requirements), Medicare expenses, prescription drugs, and long-term care services, among other retiree health care expenses.

- Upon death, HSA ownership may be transferred to the spouse on a tax-free basis.

Benefits:

- *Contain rising medical costs* – HSAs will encourage individuals to buy health plans that better suit their needs so that insurance kicks in only when it is truly needed. Moreover, individuals will make cost-conscious decisions if they are spending their own money rather than someone else's.

- *Tax-free asset accumulation* – Contributions are pre-tax, earnings are tax-free, and distributions are tax-free if used to pay for qualified medical expenses.

- *Portability* – Assets belong to the individual; they can be carried from job to job and into retirement.

- *Benefits for Medicare beneficiaries* – HSAs can be used during retirement to pay for retiree health care, Medicare expenses and prescription drugs. HSAs will provide the most benefit to seniors who are unlikely to have employer-provided health care during retirement. During their peak saving years, individuals can make pre-tax catch-up contribution