

As health insurance rates are spiraling higher, employers are looking to High Deductible plans to help reduce premiums. If an employer offers a High Deductible Plan, employees have the option to incorporate a Health Savings Account (HSA). Many employees miss taking advantage of the HSA because they are unclear of how it can benefit them. Since many questions this year are in regards to understanding these plans, I am focusing on clarifying the topic through a few popular questions from readers. They are as follows:

**What is an HSA (Health Savings Account?)**

The HSA was created when Congress passed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. An HSA is a trust or custodial account that you, if you are an eligible individual, can establish with a bank, insurance company, or other IRS-approved trustee to pay for certain medical expenses with your pretax or taxable contributions. Examples of these expenses include a qualified medical plan's deductible, any over-the-counter expenses, as well as dental and vision costs that are medically necessary according to IRS guidelines.

**Can I open an HSA if I am self-employed?**

Federal tax law does allow for a self-employed individual to open an HSA if they are a sole proprietor, a partner in a partnership, a 2% or more shareholder in a subchapter S corporation, or a member of a limited liability company that is taxed as a partnership. The business owner is eligible for the tax deduction as an 'individual' in the plan, as opposed to taking the deduction through a Section 125 Cafeteria Plan as a 'business' deduction.

**When can I open an HSA?**

It is important for you to open your HSA as soon as you enroll in a High Deductible Plan. It is not a requirement to have an HSA with a High Deductible Plan, but the HSA will help reduce your taxes.

**What happens to an HSA when you do not deplete your funds in the plan year?**

If you do not use up your funds in a year, the monies remain in your HSA, earn interest, and are available for use in future years.

**What is the maximum amount I can contribute to my HSA account for 2010?**

You, your employer, and others can contribute to your HSA only for the months in a year during which you are an eligible individual. For 2010, the maximum contribution amount is \$3050 for Individual coverage and \$6150 for Family coverage.

If you use HSA funds to pay for, or reimburse yourself for, medical expenses that you incur before you establish your HSA, the payment is taxable to you and is subject to an additional 10% tax that applies to distributions for non-qualified medical expenses.