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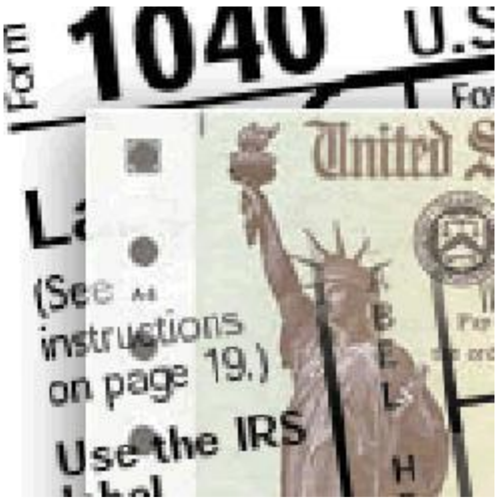
What are Health Savings Accounts (HSAs)?



Health Savings Accounts (HSAs) were created by Public Law 108-173, the "Medicare Prescription Drug, Improvement and Modernization Act of 2003," signed into law by President Bush on December 8, 2003. Health Savings Accounts will change the way millions meet their health care needs because they are designed to help individuals save for qualified medical and retiree health expenses on a tax-advantaged basis.

Any adult who is covered by a high-deductible health plan (and has no other first-dollar coverage) may establish an HSA. Tax-advantaged contributions can be made in three ways:

1. the individual or family can make tax deductible contributions to the HSA even if they do not itemize deductions;
2. the individual's employer can make contributions that are not taxed to either the employer or the employee; and,
3. employers sponsoring cafeteria plans can allow employees to contribute untaxed salary through salary reduction.

To encourage saving for health expenses after retirement, individuals age 55 and older are allowed to make additional catch-up contributions to their HSAs. Once an individual enrolls in Medicare they are no longer eligible to contribute to their HSA.

Amounts contributed to an HSA belong to the account holder and are completely portable. Funds in the account can grow tax-free through investment earnings, just like an IRA.

Funds distributed from the HSA are not taxed if they are used to pay qualified medical expenses. Unlike amounts in Flexible Spending Arrangements that are forfeited if not used by the end of the year, unused funds remain available for use in later years