Medicare: Today's Issue
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BETTER BENEFITS – MORE CHOICES

Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!

Expanded Access to Health Savings Accounts:

The Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003 includes provisions establishing Health Savings Accounts, or HSAs. HSAs are tax-advantaged savings accounts that can be used to pay for medical and retiree health expenses incurred by individuals and their families. Effective with the new year, **HSAs are available to everyone under 65.** Medicare beneficiaries are eligible to enroll in a similar product, known as a Medical Savings Account, through the Medicare program. MMA permits insurers to sell Medicare MSAs to beneficiaries.

- HSAs are similar to Archer medical savings accounts (MSAs). However, Archer MSA eligibility has been restricted to employees of small businesses and the self-employed. HSAs are open to everyone under 65 who enrolls in a high-deductible health insurance plan (a plan with an annual deductible of at least $1,000 for individual coverage and at least $2,000 for family coverage).

- **Contributions to the HSA by an employer are not included in the individual's taxable income. Contributions by an individual are tax deductible.** Total yearly contributions to an HSA can be as large as the individual's health insurance plan deductible, up to an annual limit of $2600 for individual coverage and $5150 for family coverage. Contributions can be made by an employer, an individual, or both.

- Interest and investment earnings generated by the account are not taxable while in the HSA. **Amounts distributed are not taxable as long as they are used to pay for qualified medical expenses**, such as prescription and over-the-counter drugs and long-term care services, as well as the purchase of continued health care coverage for an unemployed individual (via COBRA). Amounts distributed that are not used to pay for qualified medical expenses will be taxable, plus an additional 10% penalty will be applied in order to prevent the use of the HSA for non-medical purposes.

- **HSAs are portable,** so an individual is not dependent on a particular employer to enjoy the advantages of an HSA. Like an individual retirement account (IRA), the individual owns the HSA, not the employer. If the individual changes jobs, the HSA goes with the individual.

- **In addition, individuals between age 55 and 65 may make additional catch-up contributions to their accounts and still enjoy the same tax advantages.**