



**FROM THE OFFICE OF PUBLIC AFFAIRS**

December 8, 2003  
JS-1045

**Treasury Secretary Snow Statement On Health Savings Accounts**

Today, the President signed the Medicare Prescription Drug legislation into law. This is an important victory for the health of America's senior citizens.

An important provision in the bill greatly expands the former Medical Savings Accounts into new and innovative Health Savings Accounts ("HSA"s). HSAs provide an important and welcome option for many Americans to fund their health care expenses.

Treasury is committed to ensuring that taxpayers get the full benefit of HSAs as quickly as possible. We will be releasing basic information and guidance about HSAs shortly, and will request suggestions about how the rules should be applied. In addition, we expect to issue more detailed guidance.

-30-

**FACT SHEET:  
HEALTH SAVINGS ACCOUNTS**

- The Medicare bill signed by the President today creates new Health Savings Accounts (HSAs) to help individuals save for qualified medical and retiree health expenses on a tax-free basis.
- Beginning on January 1, 2004, individuals under the age of 65 are eligible to contribute to an HSA if they have a qualified health plan.
  - o For self-only policies, a qualified health plan must have a minimum deductible of \$1,000 with a \$5,000 cap on out-of-pocket expenses (indexed annually).
  - o For family policies, a qualified health plan must have a minimum deductible of \$2,000 with a \$10,000 cap on out-of-pocket expenses (indexed annually).
- Preventive care services, as well as coverage for accidents, disability, dental care, vision care, and long-term care is not subject to the deductible.
- Individuals may contribute up to 100% of the health plan deductible. The maximum annual contribution is \$2,600 for self-only policies and \$5,150 for family policies (indexed annually).
- Individuals age 55 – 65 may make additional "catch-up" contributions of up to \$500 in 2004, increasing to \$1,000 annually in 2009 and thereafter. A married couple can make two catch-up contributions as long as both spouses are at least 55.
- Contributions may be made by individuals, family members and employers and are tax deductible, even if the account beneficiary does not itemize. Employer contributions are made on a pre-tax basis and are not taxable to the employee.

Employers will be allowed to offer HSAs through a cafeteria plan.

- Investment earnings accrue tax-free.
- HSA distributions are tax-free if they are used to pay for qualified medical expenses. Qualified expenses include prescription drugs, qualified long-term care services and long-term care insurance, COBRA coverage, Medicare expenses (but not Medigap), and retiree health expenses for individuals age 65 and older.
- Distributions made for any other purpose are subject to income tax and a 10% penalty. The 10% penalty is waived in the case of death or disability. The 10% penalty is also waived for distributions made by individuals age 65 and older.
- Upon death, HSA ownership may transfer to the spouse on a tax-free basis.