

Unspent money in a flexible spending account at year end is lost, whereas money is allowed to accumulate year after year in a health savings account. Because contributions can be made every year, the savings portion of the HSA can be used to accumulate large amounts of cash over time. Account holders don't have to pay federal taxes on these savings until they withdraw it. If the money is used for medical expenses, it will not be taxable.

Employees can create the plans in several ways. If they have a qualifying corporate health insurance plan one with the necessary deductible they can opt into that. Generally, employers would offer a health savings account in tandem with that coverage. If their employer doesn't offer a qualifying plan, workers can forgo the company insurance and buy qualifying coverage and open a health savings account on their own.

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## HSAs SEE CALIFORNIA TAX SHOCK



SOURCE: [San Jose Mercury News](#) -

Mar. 13: Thousands of Americans who signed up for health savings accounts last year could get an unpleasant surprise when they prepare their income taxes. The accounts allow taxpayers to set aside as much as \$5,450 a year before federal taxes to cover out-of-pocket health care costs. What they don't spend can accumulate as savings.

The health accounts also are shielded from state income taxes in most of the country, but seven states have declined to provide an exemption: Alabama, California, Maine, Massachusetts, New Jersey, Pennsylvania and Wisconsin.

The discrepancy has existed since HSAs were established in 2004, but most of the accounts weren't opened until last year. That means many residents in those states won't realize they don't get a state exemption until they view their W-2 statements and see that their state taxable income is thousands of dollars higher than their federal income.

"It's going to hit people between the eyes," said Assemblyman George Plescia, R-San Diego. In California, Plescia and state Sen. Abel Maldonado, R-San Luis Obispo, are sponsoring bills that would exempt HSAs from state income taxes, but similar efforts have died in committee for the past two years. Maldonado believes that as more Californians open these accounts, pressure will build on the Legislature to allow a state income tax deduction.

Health savings accounts, created as part of the Medicare Modernization Act, can be opened only by someone with a high-deductible health insurance policy -- defined as any policy that has a deductible of at least \$1,050 for an individual or \$2,100 for a family in 2006.

Opponents of health savings accounts, including labor unions and advocates for poor people, say high-deductible insurance isn't a good product for people of modest means because they can't afford to pay \$1,000 to \$2,000 a year in out-of-pocket health care costs, and they also would struggle to set aside that much money to build their accounts.

Colin Grinnell, a consultant for Machado, also contended that the accounts disproportionately benefit people who are healthy because the savings accrue only for those who don't have to spend the money on health care costs.

Supporters counter that many middle-class workers have insurance policies that meet the deductible requirements, and that the accounts also benefit small-business owners who can't afford the high premium cost for low-deductible insurance. The high-deductible policies offered through health savings account packages are 60 percent to 70 percent cheaper to buy than policies with smaller deductibles, said Chini Krisnan, chief executive of Healthia, an online health insurance shopping site.

More than 3 million individuals now have health savings accounts, with 2 million of the accounts opened last year, according to America's Health Insurance Plans, an industry trade group. They are not to be confused with "flexible spending accounts," which companies set up for their workers to set aside tax-free dollars to pay uninsured medical bills and health plan deductibles.