

What on Earth Is a Health Savings Account?

It's Like Having the US Treasury Subsidize Your Health Care

By Kevin Bourke

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Kevin, what are Health Savings Accounts? Are they a good idea?

Dave from Montecito

Health Savings Accounts (HSAs) have been with us since President Bush signed the Medicare Prescription Drug, Improvement, and Modernization Act on December 8, 2003. An HSA is a tax-exempt trust or savings account into which you can deposit money. It allows you (and your family) to pay for current qualified medical expenses while saving for future qualified medical and retiree health expenses on a tax-free basis.

It's like having the U.S. Treasury subsidize your health care.



Money Talks

With an HSA-qualified deductible plan, you get lower monthly premiums in exchange for a higher annual deductible. Unlike a traditional deductible plan, once you are enrolled in an HSA-qualified plan, you have the opportunity to open an HSA and fund it. These funds can be used to pay for current or future qualified medical expenses.

Whether you can or should use one, Dave, depends on your personal situation.

Any adult can contribute to an HSA if they have coverage under an HSA-qualified "high deductible health plan" (HDHP). So a person who has a traditional health insurance plan, the type where a co-pay is due every time they go to the doctor, will not qualify for an HSA plan. Your deductible has to be at least \$1,100 for a single person, or \$2,200 for a family. When you go to buy insurance,

simply tell your insurance agent that you need an HDHP policy.

Also, you can have no other first-dollar medical coverage (other types of insurance like specific injury insurance or accident, disability, dental care, vision care, or longterm care insurance are permitted), cannot be enrolled in Medicare, and cannot be claimed as a dependent on someone else's tax return.

Contributions to your HSA can be made by you, your employer, or both. However, the total contributions are limited annually. You can deduct any contributions (even if you do not itemize deductions) when completing your federal income tax return. Contributions to the account must stop once you are enrolled in Medicare.

What happens if the funds in the account are not used during the year? Funds held in the account remain from year to year, just like an IRA.

So, why use an HSA?

Affordability: Many people can lower health insurance premiums by switching to health insurance coverage with a higher deductible.

Flexibility: You can use the funds in your account to pay for current medical expenses, including expenses that your insurance may not cover, or save the money in your account for future needs. These needs might include health insurance or medical expenses while you are unemployed, medical expenses after retirement (but before Medicare), and out-of-pocket expenses when you are covered by Medicare, as well as long-term care expenses and insurance.

Control: You make all the decisions about how much money to put into the account, which medical expenses to pay from the account, whether to save it for future expenses or pay current expenses, which company will hold the account--and even whether to invest any of the money within the account and which investments to make.

HSA's are still relatively new, and not all institutions offer them. Please consult a qualified professional for advice particular to your situation. I suggest that you find two or three agents that offer HSA's and interview them.

Ultimately, Dave, you need to decide what makes the most sense for you personally.