INDUSTRY | ECONOMICS | FINANCES | TAXES

America's New Health Savings Plan

The savings program which became available January 2004 is known as a Health Savings Account (HSA)

by **Scott W. Miller**

1197 words | 5 pages

During his Sate of the Union address earlier this year, President Bush discussed the long term savings potential that is available to those that utilize the new health-insurance savings program he approved in December 2003 as part of the Medicare Prescription Act. The savings program which became available January 2004 is known as a Health Savings Account (HSA)

> ***Currently, Health Savings Accounts are taking the country by storm with accounts totaling almost $1 billion dollars. And many wise Americans are already benefiting from the resulting tax savings and lower health insurance premiums.***

John and Susan Mackey – (California), had a difficult time maintaining a cost effective health insurance program for their family once John became self-employed in early 2006. COBRA premiums were costing $1,100 per month and since John took an initial cut in income the Mackey's found it very difficult to pay the monthly premium. They learned about HSA's and qualified High Deductible Health Plan (HDHP) when their local newspaper ran an article detailing how these programs worked. After doing some additional research they found it to be a perfect solution

to solve their health insurance needs – great coverage, at an affordable price, with tax benefits. Their new HDHP costs them $480 a month, saving them $620 monthly. Additionally, they plan to contribute another $400 per month (tax-deductible) into a Health Saving Account (maximum annual amount is $5,450 for a family and up to $2,700 for an individual). Now they have full control over the $5,000 going into the HSA each year and can manage their healthcare expenses accordingly. Unlike other medical savings plans the money deposited into an HSA will rollover to later years when healthcare expenses are more likely to occur.

If you haven't heard of the new HSA, it is only a matter of time until you do. Below are some common Questions and Answers to the growing-in-popularity HSA plans.

What is an HSA?

A Health Savings Account (HSA) is a tax-favored saving account that is used in conjunction with a high-deductible HSA-eligible health insurance plan to make healthcare more affordable and to save for retirement. An HSA is a tax-sheltered, medical savings account similar to an IRA, but earmarked to pay for medical, dental, and vision expenses on a tax-free basis. The new legislation allows people who acquire qualified high deductible health plans (HDHP) with deductibles of at least $1,100 (single person) or $2,200 (family) to establish an HSA. They, and/or their employers, can fund these account with an amount equal to the annual deductible, or up to $2,700 (single person)/$5,450 (family), whichever is less. Each dollar applied is an immediate dollar for dollar reduction in taxable income.

Who can create an HSA?

ALMOST EVERYONE is eligible for the HSA regardless of income or working status. Most importantly it is good for the self employed and small business owners, which have usually been excluded from such programs. Any individual who is covered by a high-deductible health plan (HDHP) may establish an HSA. Individuals over the age of 55 can make extra contributions to their accounts and still enjoy the same tax advantages. If you are over 65 and/or are eligible for Medicare you cannot participate.

Why are HSAs good for me?

Bottom line… they reduce health insurance premiums, help you save taxes and establish a fund to be used for qualified healthcare expenses. Money placed in an HSA that is not spent, stays in the account and gains

interest tax-free, just like an IRA. Deposits can be invested in a variety of investment vehicles including: Savings accounts, Money Market funds, mutual funds, stocks & bonds, etc. Unused amounts rollover for later years (unlike amounts in Flexible Spending Accounts/Cafeteria Plans that are forfeited if not used by the end of the year). In most cases, deposits to the HSA are withheld pre-tax and withdrawals for qualified expenses are taken out tax-free. In a group health insurance environment, HSAs are portable and owned by the employee. If an employee changes jobs, the HSA goes with them.

How do they work?

First you must obtain a qualified high deductible health plan (HDHP). Then you can establish one through a third party administrator, bank or other financial institution. Once you have the account, tax-advantaged contributions can be made in three ways: 1) the individual and family members can make tax deductible contributions to the HSA regardless of whether or not the individual itemizes deductions on a Schedule A, 2) the individual's employer can make contributions that are not taxed to either the employer or the employee and 3) employers with cafeteria plans can allow employees to contribute untaxed salary through a salary reduction plan.

Why should you get an HSA?

The answer is simple… it can save you money, which in turn means you will have more disposable income.

- Save tax dollars
- Save on health insurance premiums
- Money grows with interest until you need to pay for medical expenses
- Plus you now have control of how your healthcare dollar is spent

Does it cost money to set up an HSA?

Depending on the administrator, it could be as little as $4.00/month. Check around for companies that manage these and ask for their fee schedules.

What are qualified medical expenses?

HSAs can be used to pay for many types of medical expenses even some that are often excluded on health insurance plans. These include:

- Health insurance plan deductibles, co-payments and coinsurance
- Prescription and over-the-counter drugs
- Dental services, including braces, bridges, and crowns
- Vision care, including glasses and Lasik eye surgery
- Psychiatric and certain psychological treatments
- Long-term care expenses
- Medically-related transportation and lodging

Typically, HSAs cannot be used to pay health insurance premiums, although there are exceptions for:

- Health insurance premiums if you are receiving federal or state unemployment benefits
- Premiums for COBRA qualified health insurance
- Long-term care insurance premiums
- Premiums for a health plan (other than a Medicare supplemental policy) for an individual age 65 or older)

Is my money safe?

Funds in an HSA are held in a trust and are administered by a bank, insurance company, or other approved 3rd party trustee.

Fund in your HSA are invested at your discretion. Typically an HSA will allow you to choose from the following options:

- Interest-bearing account
- CDs
- Money market funds
- Mutual funds

If you are looking to minimize your investment risk, you may want to consider an interest-bearing account; these accounts are FDIC insured. On the other end of the spectrum, mutual funds may provide a greater return but are more risky and are not FDIC insured.

The HSA information provided is for general purposes only and is not tax advice. The publisher urges you to consult with your financial advisor, insurance broker, accountant, or tax advisor before opening a health savings account to determine if it is appropriate specifically for you.

Additional References:
Scott W. Miller, President, Miller Wade National
scott@millerwade.com
http://www.millerwade.com

Scott W. Miller, President
Miller & Wade Group, Inc.
Founded in 1988
Specializing in Employee Group Benefits

Education:

- Assoc. of Arts, Moorpark College, California
- Bachelor of Science, Brigham Young University
  Degree: Financial Planning
  Emphasis: Income Tax & Estate Planning

Professional Designations:

- Registered Health Underwriter (RHU)
- Life Underwriter Training Council Fellow, L.U.T.C.F.

Honors:

- Leaders Club, Mass Mutual Life Outstanding Production Award (1995-99)
- Board Member, Central Utah Assoc. of Health Underwriters (2003-current)
- Board Member, Provo/Orem Chamber of Commerce (2000-02)
- Member of SelectHealth Health Plan Broker Advisory Committee (1995-current)
- Member of Altius Health Plans Broker Advisory Committee (2003-current)
- Member of UnitedHealthcare Broker Advisory Committee (2004-current)
- Regence Elite Award (2006) for Outstanding Production
- Utah Business Magazine ranks Miller & Wade Group in top 3 in the category of Employee Group Benefits (2001 – Current)