

Medical News of Arkansas

JUNE 2006

www.medicalnewsinc.com

Is a Health Savings Account for You?

With healthcare costs and health insurance premiums on the rise, individuals and businesses are looking for new ways to reduce costs.

A simple method that many people choose is increasing the deductible on their health insurance plans. In exchange for increasing your deductible, the amount of money you'll pay out of your own pocket before the insurance company benefits kick in, health insurance providers offer insurance rates at lower premiums than for plans with a low deductible.

As these high-deductible health plans (HDHPs) grew in popularity, Health Savings Accounts (HSAs) were established and signed into law in 2003 to provide an incentive to save for future medical expenses.

Before jumping into the HSA, let's first review some health plan basics. After that, we'll take a closer look at the eligibility requirements and some of the other advantages of the new health savings accounts.

What is a High Deductible Health Plan (HDHP)?

A high deductible health plan is health insurance that excludes coverage on a certain predefined amount of your initial annual medical expenses. The limits are set by federal law and in 2006, your health insurance deductible must be at least \$1050 for self-only coverage or \$2100 for family coverage. On the flip side, the maximum amount for out-of-pocket expenses (deductibles, co-pays, and co-insurance) can't exceed \$5250 for self-only coverage or \$10,500 for family coverage.

The deductible must be applied to all medical expenses covered by the plan, including prescriptions; however, the health plans may pay for preventive care services (such as prenatal care, immunizations, annual physicals, Pap smears, and

mammograms) on a first-dollar basis (with or without a co-pay).

Who is eligible for an HSA?

Individuals and families are eligible to establish and contribute to an HSA if they:

- Have coverage under an HSA-qualified HDHP.
- Have no other first-dollar medical coverage.
- Are not enrolled in Medicare.
- Can't be claimed as a dependent on someone else's tax return.

If you enroll in Medicare, contributions to your HSA must stop; however, you can keep the money in your account and use it to pay for medical expenses tax-free.

How much may be contributed to an HSA?

The maximum contribution is limited to the amount of your HDHP deductible, with a 2006 limit of \$2,700 for self-only coverage or \$5,450 for family coverage. Individuals age 55 and older can also make additional "catch-up" contributions.

Contributions to your HSA may be made by you, your employer, or both. Contributions may be deducted when completing your federal income tax return (even if you don't itemize), but the total amount of your annual contribution is limited.

How do HSAs work?

Banks, credit unions, insurance companies, and other financial institutions can serve as trustees or custodians of health savings accounts. Providers of HSA accounts differ greatly in their services, rates and account options. Many have setup, maintenance and withdrawal fees so it's very important to ask about these items before choosing a custodian for your health savings account.

Once you've selected your HSA provider and have contributed to your account, the money in your account may be used to pay for any "qualified" medical expense permitted under fed-

eral tax law for yourself, your spouse or your dependent children, even if your spouse or children are not covered by your HDHP. This includes most medical care services including dental and vision care and most over-the-counter medications.

Any amounts not used for "qualified" medical expenses are taxable as income and subject to a 10 percent tax penalty. After age 65, the 10 percent additional tax penalty no longer applies.

If you haven't used the money in your HSA by the end of the year, it's no problem. The money in your health savings account is always yours and always tax-free for qualified medical expenses.

What are the main advantages of an HSA?

1. *Tax Savings:* An HSA provides triple tax savings – a tax deduction when you contribute, tax-free earnings on your account, and tax-free withdrawals for qualified medical expenses.

2. *Control:* All decisions about how much you contribute or withdraw, which company will hold the account, and how the account will be invested are completely up to you. If the owner of an HSA account dies, the surviving spouse becomes the owner of the account and can use it as if it were his or her own HSA. If you are not married, the account will no longer be treated as an HSA but will pass to your beneficiary or become part of your estate (taxes may apply).

3. *Portability:* An HSA is completely portable, whether you change jobs, change insurance coverage, become unemployed, move to another state, or get married.

High deductible health insurance plans and accompanying health savings accounts may not be the best choice for everyone, but the potential benefits certainly make them worth considering.



**Chad
Carlson**

Chad Carlson is a financial advisor with Delta Trust Investments, Inc. in Little Rock.