



A HEALTH SAVINGS ACCOUNT

AN ATTRACTIVE OPTION FOR REPS

AS THE NEW ADMINISTRATION IN WASHINGTON, D.C. (NOT TO MENTION THE AMERICAN PUBLIC, IN GENERAL) CONTINUES TO GRAPPLE WITH THE MEDIAL HEALTHCARE CHALLENGE, THERE'S ONE OPTION THAT CONTINUES TO BE ESPECIALLY ATTRACTIVE TO MANUFACTURERS' REPRESENTATIVES AND THEIR EMPLOYEES — HEALTH SAVINGS ACCOUNTS (HSAs).

As an outgrowth of the Medicare Reform Act of 2003, HSAs offer consumers a tax-free medium for healthcare. With HSAs, consumers typically employ a high-deductible health insurance policy to protect against major medical expenses, while establishing a savings account to use for small, day-to-day medical expenses.

What recommends this approach is that the high-deductible policy is significantly less expensive than traditional HMOs, and the money individuals deposit into their HSA is considered pre-tax dollars. This allows people to take money out of their paycheck and deposit it directly into their HSA before they pay taxes on it. As a result, not only do they save on their insurance premiums, but they are also able to save on their taxes. Moreover, HSA money can be used to pay for any medical expenses, from over-the-counter headache medications to knee braces or orthopedic shoes.

Anything remotely medical can be paid for out of the account, all funded with pre-tax dollars. At the end of the year, any money left over in the HSA account can be rolled over — tax-deferred — to use the next year. By comparison, flex spending accounts don't allow that — if you don't use it during the calendar year, you lose it.

According to **Richard Monello**, president and CEO of Custom Health Plans, Inc., (customhealthplans.com), Dallas,

Texas, these plans were created in response to the rising cost of health care, with the intent to give back to the consumer control of their healthcare costs and in many cases reduce premiums by 30-40% or more on an annual basis. These unique plans provide consumers greater control, more choices, tax advantages and are generally more affordable than their HMO and PPO second cousins.

Savings Mount

Commenting on the attractiveness of such plans, Monello maintains, "For an employer moving to a high-deductible healthcare plan, coupled with an HSA or HRA, employers and employees are more involved in their healthcare decision-making. Employers also stand to save money. Generally a high-deductible health plan (HDHP) is up to 50 percent less expensive than their traditional PPO health plan premiums. Additionally, properly structured HSA contributions are considered employer-provided health coverage and excluded from your corporate gross income — not subject to withholding and other employment taxes."

He continues that, in general, employees can benefit from HSAs. "HSA's are analogous to medical IRAs on steroids, providing employees with an account from which they can control their medical expenses. They provide the following advantages:

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- ✓ Pre-tax dollars can be used to pay for qualified medical expenses.
- ✓ Control and Portability — Individuals own it and can take their HSA with them in the future and have more control over their healthcare decisions. Furthermore, they are not dictated to as to whom they can see and how much will be paid by insurance company and employer-based benefits.
- ✓ Funds left in the account at the end of the year can be rolled over to the following year and grow, tax-deferred.
- ✓ The account stays with you even if they change employers.
- ✓ After age 65, individuals can withdraw their funds for anything, not just medical, and they are only taxed as ordinary income.

“If they choose to continue to use the HSA for qualified medical expenses, they escape all federal and state income tax forever. Traditional and Roth IRAs cannot even do that.”

When he was asked if there were any elements of HSA use that consumers ought to be aware of, Monello answered by stating that, “The only real pitfall is if they are very unhealthy and require a great deal of medical attention and they are constantly going to the doctor and over-utilizing the benefits. If they are generally healthy and only require physician visits for wellness and preventative care — perhaps five to 10 doctor visits annually — then an HDHP paired with an HSA is hard to beat. An example of over-utilization would be young children who require constant medical attention.”

In conclusion, Monello notes, “We all have to question the wisdom of having the government run any kind of universal healthcare system, as government has not generally been known as a paragon of efficiency and fairness. Given the choice, I believe consumers would rather enjoy HSA premiums, which tend to be lower than HMOs or PPOs. Further, there is typically 100 percent coverage for all medical, dental and vision needs. Combine that with the freedom to choose any doctor and any hospital, HSAs are more than competitive — they’re tough to beat.”

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