Take Charge Of Your Health: Is A Health Savings Account Right For You?

by PAULA L. WILSON

Health Savings Accounts (HSAs) were launched into the health insurance market three years ago in an attempt to bring consumers into a more active role in their health care spending. The movement toward "consumer-directed health care" was already in motion with the existing Medical Savings Accounts (MSAs) and Health Reimbursement Arrangements (HRAs). More than three million Americans have joined the consumer-directed health care movement by participating in HSAs, and the number continues to rise at an even faster pace.

Just before the 109th Congress completed its final session last year, the Tax Relief and Health Care Act of 2006 passed the House and Senate and was signed by President Bush. The improvements in HSAs will attract even more people to join the movement, as roadblocks have been removed that kept many away.

Exactly What Is an HSA?

Health Savings Accounts became law as part of President Bush's Medicare Prescription Drug, Improvement and Modernization Act of 2003. The purpose of HSAs is twofold.

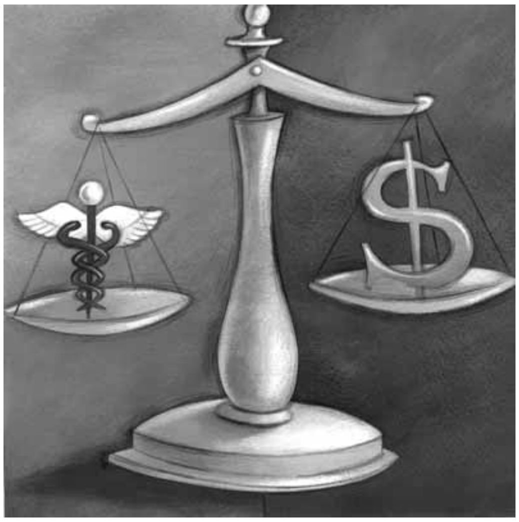
- To promote savings for future health care expenses.
- To gently nudge the insured public into consumer-driven health products by offering tax incentive programs to those enrolled in qualified plans.

Why would a tax proposal tied to health insurance be included in a Medicare Reform package? By the time the Medicare rolls consist primarily of baby boomers, two things are certain:

- Medicare will be in serious financial trouble.
- The cost of heath care will have grown to a level we can only imagine now.

HSAs are designed to give a new generation of consumers more personal responsibility for their health through high-deductible health plans and tax-advantaged savings plans aimed at saving for future health care costs.

An HSA is a tax-advantaged savings account created by an individual who is covered under a high-deductible health plan. HSAs have limits on how much you may deposit as well as what



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With an HSA, you deposit money in the tax-advantaged savings account and use it for all of your medical expenses until you meet the deductible for a calendar year. After that, you are covered under the terms of the high-deductible health plan. The beauty of an HSA is that, unlike a standard health insurance plan, in which your premiums are lost forever, with an HSA the money goes into a savings account. For example, if you put $3,000 into the HSA in 2007 and don't make any trips to your health care provider, that $3,000 stays in the account, earning interest. You can then use it to help meet your deductible in 2008.

Another advantage of HSAs is that they give you control over your health care. You choose which providers you see and what health care you use, as long as it is a "qualified expense." (A qualified medical expense is any health care cost paid on behalf of the individual or his or her spouse or dependents for medical care, as defined in the Internal Revenue Code — IRC 213(d).) Because you're spending your own money, you are no longer at the mercy of managed care review boards that may or may not decide to approve your choice of care.

Who Can Have an HSA?

In order to make deposits into an HSA, you must own an HSA-qualified health insurance policy. A qualified policy includes the following characteristics:

1. A minimum deductible of $1,100 ($2,200 for families).
2. No first dollar benefits. Copayments for office visits and prescriptions prior to satisfaction of the deductible are not allowed.
3. A maximum out-of-pocket liability of no more than $5,500 ($11,000 for families).
4. Preventive benefits are allowed without deductible.
5. The policy must be in effect at the time of any qualified contribution. A policy does not need to be in effect in order to make a withdrawal from the account.

In addition to owning a qualified policy, you cannot be covered by another health plan that is not a high-deductible health plan (for example, you cannot be covered through your spouse's employer coverage). If you are eligible for Medicare, you do not qualify to have an HSA.

How Much Money Can You Contribute to Your HSA?

Contributions to an HSA by you and your employer are limited to $2,850 if you are single and $5,650 if you are married (this amount increases annually based on Consumer Price Index). These limits reflect an important change for 2007. Previously, you were limited to your deductible or the maximum contribution, whichever was less. Proponents continue to fight to have the maximum contribution equal your annual maximum out-of-pocket cost.

Individuals over age 55 can make "catch-up" contributions (limited to $800, rising by $100 increments until reaching $1,000 for 2009 and later years). Rollovers from existing MSAs are allowed and do not count toward the annual contribution. The 2007 changes will allow rollovers from FSAs (Flexible Spending Account) and HRAs for a limited time. Even IRAs can be rolled over to the HSA on a one-time basis.

Another very unpopular restriction was lifted in the new tax bill for 2007. Previously, your contribution was prorated for the amount of time you held the qualified high-deductible health plan. The revision now allows you to make your complete annual contribution, regardless of the length of time you held the high-deductible health plan. Remember, you must hold a high-deductible health plan in order to make a deposit into your HSA.

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How Do You Use the Money in Your HSA?

Now that you've acquired the high-deductible policy and set up the HSA, how do you get your money out? — Third-party administrators, banks and insurance companies administer accounts on a fee basis. The actual process of making withdrawals will be specific to each administrator. Money may be withdrawn on a tax-free basis as long as it is for a qualified medical expense. Funds from the HSA may not be used for health insurance premiums, except for the following:

- COBRA health care continuation premiums.
- Health care coverage premiums while receiving unemployment compensation.
- Qualified long-term-care insurance.
- Health insurance premiums for individuals over age 65, other than a Medicare supplement (approved plans would include Medicare Part A & B, Medicare+Choice and employer retiree coverage).

These withdrawals may be made at any time. Unlike FSAs, HSAs encourage you to save your money by allowing the amounts to roll over and accrue tax-free over time. You can even earn interest tax-free on the money in your HSA. Ultimately, the best scenario would result in a bankroll to fund your health care expenses later in life. For this reason, HSAs should be added to all current Section 125 plans when a high-deductible plan is available.

Who Should Sign up for an HSA?

Some suggest only the healthy and wealthy will sign up for HSAs. This doesn't hold up against actual experience. Older workers and those who may need more health services see greater value in the control they get over their health choices. Experience shows that high-deductible policy-holders use the preventive benefits, generic drugs and make wiser choices on discretionary expenses.

HSAs are getting more attention from the insurance industry than the MSA and HRA plans of the past decade. This renewed enthusiasm will bring more consumer-friendly programs to entice the public. Bankcards attached to your HSA will make using your HSA at the pharmacy or health care provider hassle-free. Unlike the claims forms required to receive reimbursement from Section 125 plans, the bankcard will act just like your ATM or debit card. This competition will help the consumer by driving premiums, benefits and provider networks to their favor.

HSAs offer two advantages you just can't get from regular health insurance:

- More control over your health care decisions.
- Tax-free savings for future health care expenses.

Wise health care consumers are recognizing these advantages and switching to HSAs. ❐