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What is the story of the Health Care Savings Account?

Health Savings Accounts (HSA's) have become a buzzword in the insurance industry. Many clients come to our offices armed with things they have heard about HSA's but sometimes they do they fully understand the tax ramifications and logistics of an HSA health plan. Other clients have no knowledge that HSA accounts even exist but once they learn about them they realize that there are substantial advantages to having one.

A study by America's Health Insurance Plans (AHIP) reveals that lower-premium, High-Deductible Health insurance Plans (HDHP) offered with HSA's covered 3,168,000 people in January 2006, more than triple the number reported in March 2005. The individual and employer markets are growing significantly.

So what is a Health Care Savings Account and a High Deductible Health Plan and why should individuals and companies know about these plans? As I have discussed in previous articles, health care costs are rising at a rapid rate in this country because of many factors. A High Deductible Health Plan can significantly lower health insurance premiums and combined with an HSA account can provide a savings vehicle at the same time.

Health Savings Accounts (HSA) was created in Medicare legislation signed into law by President Bush on December 8, 2003. An HSA is a special account owned by an individual where contributions to the account are to pay for current and future medical expenses. HSA's are used in conjunction with a High Deductible Health Plan (HDHP). An HDHP is any health insurance plan with a minimum deductible (for 2006) of \$1,050 for self-only coverage and \$2,100 for family coverage. These amounts are indexed annually for inflation. A HDHP must also have an annual out-of-pocket maximum that cannot (for 2006) exceed \$5,250 for self-only coverage and \$10,500 for family coverage. There are additional requirements for these plans regarding limits on benefits, first dollar coverage, prescription drugs and preventive care. Most insurance carriers are now offering HDHP compatible health plans to their clients.

Contributions to an HSA account can be made by the employer an individual or both. Contributions made by an employer are not taxable to the employee. Contributions by an individual, is deductible as an "above-the-line" tax deduction. The maximum amounts that can be contributed (and deducted) to an HSA from all sources have certain annual limits. The limit is a combination of the lesser of a health plans deductible or the maximum specified in the law. For 2006 the limit is \$2,700 for self-only coverage and \$5,450 for family coverage.

So what's the deal with these new HSA accounts? The better part of the story is in how the account gets distributed. Distributions are tax free if taken for "Qualified Medical Expenses". IRS Section 213(d) of the IRS taxation code defines qualified Medical

Expenses. This means the costs of such items as out-of-pocket expenses not covered by insurance. It includes Dental Care, Eye Care, Chiropractic Care, Acupuncture and even over-the-counter drugs. Some insurance carriers now combine with financial institutions to offer HSA accounts that come with a debit card. This means that you can simply present the card to your doctor for payment. As long as you have money in the account, the funds will be pulled for payment making it easy and convenient. Even better, if you do not spend the money in your account, you get to keep it! You can use this money for medical expenses in future years.

The one catch is that non-medical expenses cannot be taken out of your HSA account. If this is done, then the distribution is included in an individual's taxable income. The individual would have to pay an additional 10% tax penalty as well. There are some exceptions and fine points in all of these rules, which are too numerous to list here.

Another advantage in having a High Deductible Health Plan (HDHP) is the potential premium savings that can result. This savings can then be contributed to an HSA account to pay for future medical expenses. It makes sense, pay less money in insurance premiums and save more dollars. It puts the individual in control of their health care dollars. To learn more about Healthcare Savings Accounts, consult a good insurance broker who is familiar with the regulations.

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