

# Health Savings Accounts—Is it the right choice for you?



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You control the account, not your employer, the insurance company, or the government. It allows you to set aside and budget your finances for your healthcare needs. It provides the flexibility to shop around for quality and affordable healthcare. In many cases, the employers may also contribute to your HSA for which you do not pay income tax. The money you set aside in your own HSA account can be deducted from your taxable income.

## *What are the disadvantages of a HSA?*

This is similar to your IRA account. It comes from your pre-tax income. However, if you have no income, you cannot get the tax benefit, nor can you put aside money in a HSA. So, it may favor those who have adequate income to put aside money for the HSA.

It is hard to predict the type and the severity of illness that you might encounter in the future. Next, even if you have the money in the HSA account, still you need to be an educated consumer to know how and where to shop for reasonable and affordable medical services.

If you have accumulated a sizable amount of money in your HSA, and if your healthcare provider does not cover certain healthcare services, you may end up paying premium charges. Normally, when you go through your insurance carrier, they have negotiated prices which may be a fraction of what the healthcare providers usually charge. People do not negotiate when they know that you have a nice chunk of money in your HSA account.

Putting money in the HSA might divert your family entertainment money or the money

you might have year-marked for preventive services. So, the best place where the HSA funds could come in handy is to meet your high deductibles selected by you from your regular insurance carrier to keep your premiums lower.

If you withdraw the funds for non-medical expenses, you have to pay income tax on that money along with 10% penalty for early withdrawal before the age of 65.

## *Is the HSA account good for everybody?*

If you and your family members are young and healthy, it might make sense for you to save some money for future medical needs as the premium and healthcare costs are bound to go up with time. If you have chronic medical conditions requiring extensive medical care, HSA might be helpful to you. An employer has to have two or more employees to set up a high deductible plan to qualify for the HSA. You should not try to switch to a new plan when you have chronic illness such as diabetes or heart condition as you may have a lapse in your coverage

## *How to set up a HSA account?*

You can set up a HSA with your bank or with a financial institution. In order to set up this account, you must be under the age of 65, have high deductible primary health insurance coverage, and you should not be covered by any other insurance. The high deductible amount is set by the Internal Revenue Service and that information must be available from your employer or the financial institution. Please consult with your insurance carrier to see what plans are eligible for the HSA.

At the present time, the contribution limit is about \$2800 per individual and \$5600 for a family (2008). If you are over the age 55, you are eligible to put \$900 extra per individual (catch up). The limits are indexed for inflation and can change from year to year. You can save a substantial amount of money over the years and you get the advantage of saving your money tax-free. These contributions must stop once you enroll in any state for Medicare coverage

The high deductible could be paid from your HSA, before your primary insurance coverage takes effect. The HSA funds can be used to pay your deductible, co-pays, and other healthcare expenses.

Another good news about the HSA is that any money that is not used, rolls over to the next year and accumulates tax-free. There is another plan called the "Flexible Spending Account," [FSA], which is similar to the HSA, but has some distinctions. You cannot take money out of an employer sponsored FSA if you quit your work. The money must be spent during the same year. You are not allowed to have both accounts. If you have a choice, you may want to consider HSA as you can take your account when you quit your job. Banks, credit unions, and insurance companies can serve as trustees. The money can be vested in any type of investments

## *Does HSA cut your healthcare costs?*

A diplomatic answer would be yes and no. As I mentioned before, when you have money in the bank, you may be tempted to spend it. On the other hand, if you are an educated and conservative consumer, you may

think twice before you spend that money. From a more practical point, it does save money, if you are young and healthy. When you are young, you can get a high deductible insurance converge and use the reduction in the premium to fund your HSA. Assuming that you are in good health and do not use the HSA funds, you can accumulate those funds over the years so that you can continue to have a high deductible insurance coverage in the future.

## *How to find quality medical care?*

As a general consumer, it is very hard for ordinary people to know who is an expert in any given field of medicine. Have a dialog with your trusted family physician and get two or three referral options. Then you may want to meet all of them and see if your chemistry blends with a particular physician. You also may want to look at US world report to see how they rank each specialty to get some guidance.

## *What are the tax consequences?*

First, if your employer funds the account, you do not pay tax. If you fund the HSA, you deduct that amount from your income just as you would your IRA contribution, whether you spend that money or not. Next, any interest and earnings are tax differed. They can be used to pay your medical bills and prescription drugs, without paying any taxes. Make sure to preserve your medical receipts, just in case you get audited.

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## *What is a Health Savings Account [HSA]?*

This is an account where people can put money aside for future medical needs. It was established by congress in the year 2003. This enables you, as a health care consumer, to have a say as how your health care dollars are used and to reduce your overall healthcare costs. You, not your employer, control the money invested in the HSA and use it for your medical expenses.

## *What are the advantages of a HSA?*