

Health Savings Accounts — not just for health care anymore



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THANKS TO SOME NEW RULES and a more flexible attitude from Congress and Federal agencies, health savings accounts (HSAs) aren't just for health care anymore. Both employers and employees should take a second look at a great way to build sizeable nest eggs.

A health savings account is a tax-favored savings account linked to a "consumer-driven" health insurance plan that generally comes with lower premiums and a higher deductible. The idea is to put money into the health savings account — then use it to cover the higher deductibles, co-pays and other medical expenses not covered by insurance.

TRIPLE TAX SAVINGS

HSAs are designed to save money for future medical expenses, but because their contributions are made pre-tax, you can use an HSA to increase the amount of money you save before taxes. And because health savings accounts can be invested in a money market, bonds or even a stock investment

vehicle, you might also earn healthy amounts. Money withdrawn from an HSA for qualified medical expenses, such as deductibles, co-pays and medication, is also not taxed. An added bonus: unlike flexible spending accounts, unused HSA funds are not forfeited at year's end. Long-term, employees will receive greater benefit from HSAs than accounts that must be emptied at year's end.

HELPFUL GUIDELINES

Here are some general recommendations for anyone wishing to make the most of a health savings account. While new rules and relaxed ways of interpreting those rules have made HSAs much more attractive, individual situations vary for both employers and employees, so you should check with an experienced tax attorney before implementing your final plan. This is especially true for employers. What you can do varies greatly based on your company's overall structure, including affiliated companies. In general, however, most HSA holders can benefit from the following:

- ▶ Health savings accounts must be established for all similarly situated employees, (although partners and sole proprietors may benefit from special rules).
- ▶ Treat your Health Savings Account as a long-term investment. If you can pay out of pocket and not use the HSA money unless absolutely needed, you can build a nest egg for retirement. After age 65 the money in an HSA can be used for non-medical expenses without the 10% penalty imposed before age 65. HSAs are a great way to pay for

Medicare expenses. They can also be used to cover COBRA payments for continued health care coverage in the event of a layoff or job loss.

- ▶ Invest as much as possible, regardless of your deductible. The more you save, the more you will earn. For 2007, you may put as much as \$2,850 for single coverage or \$5,650 for family coverage into your account. Over 55? Add an extra \$800!

- ▶ Take advantage of a one-time transfer, shifting money from an existing flexible spending or health reimbursement account.

- ▶ Make a full contribution the first year. The amount you can put into an HSA is no longer pro-rated based on the date of your contribution. You can join late in the year and load your HSA to the max. In many instances, employees can start an HSA retroactively, or include their HSA in an employee plan if they began one and didn't notify their employer.

- ▶ Take a pass on the IRA transfer. The law allows "seeding" HSAs with money from an individual retirement account (IRA). Most of the time you are better off using "new" money to start an HSA. For someone close to retirement, this could be a way to move money out of an IRA without paying taxes on it, but it does not increase your savings, as explained next.

- ▶ Continue contributing to your IRA if you have one. Your HSA contributions won't effect your IRA limits, so you can load up the IRA without worry.

- ▶ Take personal responsibility for your own health care. Be pro-active. Prepare for future health care expenses. Study all of the options with an experienced tax expert, taking into consideration your individual or corporate situation before deciding what to do. □