by Nancy Buckingham Harms

H.S.A.? Who’s eligibile for a Health Savings Account?

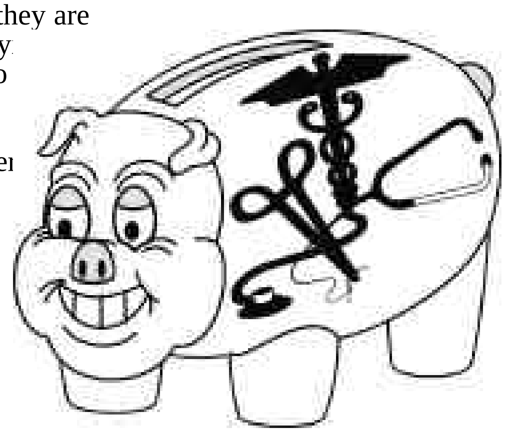
With the passing of the new Medicare bill, effective January 1, 2004 a new way to pay for and manage your health expenses came into effect with the establishment of Health Savings Accounts (HSAs). On May 20th, Governor Sebelius signed HSAs into law!

H.S.A.? So, what's another acronym to you?

The HSA could mean substantial savings to you through the reduction of health insurance premiums by purchasing a high-deductible policy, the ability to reduce your current income taxes while saving for qualified medical expenses, and paying for current and future health expenses on a tax-free basis!

Not bad for just three initials! How do you get one of these HSAs?

Any individual who is covered by a high-deductible health plan (I'll define that in the next paragraph) may establish an HSA. Money contributed into an HSA belongs to you and is completely portable (you take it with you even if the HSA was established through an employer). As an individual or family, you make tax deductible contributions to the HSA each year even if you don't itemize deductions, much like another more familiar acronym, the IRA. The money inside the HSA grows tax-free year after year, and all funds paid out from the HSA are not taxed if they are used to pay for qualify medical expenses! To encourage saving for health expenses after retirement, HSA owner between ages 55 and 65 are allowed to make additional catch-up contributions ($500 in 2004) to their HSAs.



Who is eligible for a Health Savings Account?

Anyone who is covered by an HDHP, of course! If you are insured under a High Deductible Health Plan, and are NOT covered by other health insurance (this doesn't apply to disability, dental, vision care, specific injury and accident insurance, or long-term care insurance) and if you are not eligible for Medicare, nor claimed as a dependent on someone else's tax return. Your health insurance plan must have a minimum deductible of $1,000 for individual coverage with a maximum annual out-of-pocket of $5,000, OR a minimum of a $2,000 deductible for the family as a whole with an annual out-of-pocket not exceeding $10,000. These annual maximums INCLUDE deductibles and co-pays! More flexible than other health savings incentive plans before, the HSAs can have first dollar coverage (no deductible) for preventative care and higher out-of-pocket (copays and coinsurance) for non-network services.

If this description sounds confusing, please remember that the Health Savings Account is the offspring of two industries that excel in confusing descriptions and regulations… INSURANCE and GOVERNMENT! So let's concentrate on SAVING MONEY!!!

You save money if your premiums for health insurance are reduced by accepting a higher deductible contract. Your health insurance premiums are

... remember that the Health Savings Account is the offspring of two industries that excel in confusing descriptions and regulations… INSURANCE and GOVERNMENT! So let's concentrate on SAVING MONEY!!!

usually lowered by 20% - 40% when you change from a low deductible to a high-deductible plan. You can use these savings to fund your HSA!

You save money by reducing your taxable income by the amount of your annual contribution into the Health Savings Account. Contributions you make on your own behalf are tax deductible, nor are employer contributions to employee HSAs included in your income (and employer contributions are not subject to FICA taxes)! An HSA is even allowed for employees covered by an employer self-insured medical reimbursement plan with a qualifying high-deductible.

You save money when you pay for your medical expenses with tax-free dollars! Especially when the list for qualifying medical expenses includes expenses that would otherwise not be paid for as a health insurance benefit! The list of qualifying medical expenses is long …very long … including, but not limited to physician's visits, in-patient and out-patient medically related expenses, diagnostic tests, hospital bills, medical equipment, vaccines, prescription drugs, birth control pills, dental, vision and hearing exams as well as the purchase of eyeglasses, contact lenses, hearing aids and batteries, and dental x-rays, and other "alternative" therapies such as acupuncture and chiropractry. Additionally, your HSA funds can also be used to pay for a health insurance plan during any period of continuation coverage, such as COBRA; a qualified long-term insurance contract; or a health plan during a period in which the individual is receiving unemployment compensation!

You save money long-term, and into retirement! While contributions to your HSA must stop once an individual is eligible for Medicare, the accumulated funds within the Health Savings Account can provide for medical expenses that will not be covered under Medicare, such as a portion of prescription drug costs or Medicare Part A & B premiums. For this reason, if you are 55 and older, you can make additional "catch-up" contributions into your HSA now! And don't forget, the premiums for your long-term care insurance may also be paid tax-free from your HSA funds.

Learn more about this potentially valuable acronym, the HSA…ASAP!

Like an IRA, you can make your contribution to the account up until April 15th, 2005 to obtain a deduction for 2004, but unlike an IRA, the maximum deductible amount of your contribution is pro-rated on the first full month your HDHP (High Deductible Health Plan) was in place, so don't procrastinate and lose part of your tax advantage for your first year! At this time, (06/19/04) there is a short list of five Health Savings Account insurers in Kansas. You will want to compare the coverages and benefits available, understand if there are any fees for establishing your HSA through them, and apply for the coverage. The deductibility clock begins ticking only after the HDHP contract is issued to you…so OK, ASAP CK HSA STAT!!!

About the author:

Nancy Buckingham Harms is well known throughout northeast Kansas as a seminar presenter and educator on financial matters. She appeared on TV for more than four years in weekly News feature called "Money$ense." She resides in Topeka, Kansas and can be contacted through her website: www.makemoneysense.com or calling 1-800-811-3261.