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HReport

GRIZZAFFI DARBY
BEYOND BENEFITS

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EVALUATING AND IMPLEMENTING AN HSA PLAN

Most people who are fortunate enough to have good health – especially younger adults - don't worry too much about falling victim to a medical calamity. But as we all know the possibility is always there, and without adequate medical coverage the consequences can be financially devastating. In contrast, for healthy Americans that do have good health insurance, the high monthly premiums of their insurance plans can seem excessive if they don't receive medical care very often. For these individuals, a "Health Savings Account" (HSA) provides a solution to the high costs of infrequent or unexpected medical care by allowing its recipients to build up tax-free savings money to use for medical expenses.

President Bush signed HSAs into law on December 8, 2003, as a way to combat increasing health care costs.

The plan is simple: To open an HSA, you must have an HSA-qualified "high deductible health plan" (HDHP). Federal law requires this deductible to be at least $1,100 for one-person coverage, and $2,200 for family coverage. Monthly premiums for these plans tend to be less costly. The money in an HSA accrues over time, providing a safety net in the case of a high out-of-pocket medical expense. However, the funds can only be accessed for "qualified medical expenses" as defined by federal law. (Expenses such as cosmetic surgery, for instance, are not covered). For 2007, the maximum HSA contribution is $2,850 for individuals and $5,650 for families.

HSAs offer a number of advantages. You can use the money in the account to pay not only for your own medical expenses, but also your spouse's and your children's, even if they are not covered by your HDHP. They also provide tax incentives. The money you put into the account is tax deductible, and you enjoy tax-free earnings throughout the investment, as well as tax-free withdrawals for medical expenses.

If you decide to use the money in the account for purposes other than "qualified medical expenses," it becomes taxable income and could result in an additional 10% tax penalty. This 10% penalty no longer applies once you turn 65. If at that point you become disabled or are enrolled in Medicare, the account can be used for purposes other than medical expenses.

The account is available to any adult, as long as he or she has an HDHP and no other medical coverage, and cannot be claimed as a dependent on a tax return. Even if you change or lose your job, change your medical coverage, move to another state or change your marital status, you can still keep your HSA. Should you die, your spouse can use it as his or her own. If you are not married, the account passes to your beneficiary or becomes part of your estate. Employers can contribute to an employee's HSA, and the contribution is not taxable to the employee.

Offering HSAs as an option in your company's benefit package may make sense for a number of your healthy employees who are feeling the pinch of high monthly insurance premiums. A Grizzaffi Darby benefits consultant can provide detailed information on how to implement them into your plan. The Treasury Department's website also has additional information about HSAs. The HSA website can be found through www.treas.gov (click on "Health Savings Accounts") or you can go directly towww.treas.gov/offices/public-affairs/hsa.