Is an HSA the

Pros and Cons of a Health Savings Account

Story by S. Kay Bell

GEORGE W. BUSH HAS ONE. LAURA, TOO. And the president thinks you could benefit from one. So what exactly does the First Family believe has value beyond the White House walls? Answer: a health savings account.

Originally created as a way for the self-employed to obtain healthcare insurance, these medical coverage plans, commonly called HSAs, became more widely available in 2004. Since then, the Commander-in-Chief has become the Cheerleader-in-Chief for the accounts. And with healthcare expected to be a major issue in the 2008 presidential campaign, count on HSAs to be part of the debate.

The accounts operate hand-in-hand with a healthcare policy. Ideally, you'll get full medical coverage, lower your federal income tax bill and have an IRA-like account that could amass a substantial amount of tax-advantaged dollars over the years.

Unfortunately, not everyone is in the ideal HSA situation. As with all personal finance decisions, your medical care choice depends on many factors: age, family status, health and your employment circumstances.

One Plan, Two Components

The first consideration when it comes to HSA participation is the required companion healthcare policy. Although the potential for HSA participation was opened up a few years ago, you must have a specific type of coverage.

"Now, anyone can have a health savings account," said Garland Cole of Ashley Cole Benefits, LLC, an Austin-based insurance and benefit group. "Anyone" includes the originally-targeted self-employed to employees with group coverage at his or her workplace.

But, noted Cole, the first criterion in any situation is that you have a high-deductible health plan. These are just like they sound; the insured policy holder will initially pay greater out-of-pocket costs.

Eligible plans are available through various insurance companies; however, they all have deductibles for 2007 of at least $1,100 but no more than $5,500 for singles and between $2,200 and $11,000 for covered families. If your healthcare costs reach the deductible level, the policy coverage kicks in.

Once you get your insurance policy, then you can open your health savings account. Currently, an individual can put up to $2,850 a year in an HSA. An account for family coverage can be as much as $5,650. HSA contributions often come from savings by paying the typically lower premiums charged for the accompanying high-deductible policy.

Then, when you have to meet some deductible costs, you use HSA money to pay. "The deductible part is pure insurance costs, healthcare costs," said Cole. "The side fund, the HSA, is a separate entity, an actual savings account. You have the opportunity to put money aside for those emergencies when you do need to meet the deductible."

Account Advantages

Another type of deductibility also comes into play with a health savings account. Contributions to the plans are tax deductible. The contributions can come from you, as well as your employer, if you have an HSA through work. Individuals age 55 and older can make additional catch-up contributions to the account each year until they enroll in Medicare.

All HSA earnings are tax-free, and there is no limit to how much you can accumulate in the account. When you take money out to pay eligible medical costs, those distributions are tax-free, too.

But perhaps the most appealing part of an HSA is that there are no time constraints on when you can spend it. If you don't use all the account money on healthcare costs, you don't lose it. You can carry any money that's in the account at year's end over into the next year to pay for future medical costs. "The important thing is that everything that goes into an HSA is pre-tax, and as long as it's used for medical, dental or vision, then it is 100% pre-tax," said Cole.

Not For Everyone

While a high-deductible insurance policy and HSA works well for many, it's not a good fit for everyone. Some folks find that a traditional employer-provided plan, while it generally costs more in up-front payments, is more cost-effective over the longer term.

"In any traditional health plan, you

For some, a high-deductible health insurance policy and accompanying health savings account could be the right medical and financial prescription.

Right R_x?

will have an office visit and prescription co-pays," said Cole, "but that's not the case with an HSA. There is no office visit or prescription co-pay.

"There are a lot of cases, such as young families making really good money, who would appreciate the tax advantages of HSAs but have small children that will have to go the doctor three or four times a year for shots, checkups and illnesses picked up at day care." In those cases, more traditional healthcare coverage is the better financial and medical choice.

But for individuals or families who are in good health, HSA-eligible coverage could be a better prescription. "An HSA is particularly good if you're reasonably healthy, in a higher tax bracket and your kids are older and don't need regular checkups," said Cole. "Then you can really take advantage of the tax benefits of an HSA."

George and Laura Bush are prime HSA candidates. They are healthy and have no dependent children. On his 2005 tax return, Bush contributed $3,100 to his HSA; his wife put $600 into her account.

Workplace vs. Individual Coverage

The Bushes also have the advantage of an employer, the federal government, which offers the high-deductible policy/HSA option to its workers. That's still a rarity. Most HSA enrollment is by persons, such as the self-employed, who buy their own health coverage.

The Kaiser Family Foundation and Health Research and Educational Trust (HRET) conduct an annual employer health benefits survey. In 2006, Kaiser/HRET found that while there is a lot of talk about consumer-driven healthcare options like HSAs, there has been modest enrollment in such plans. Last year, 2.7 million workers participated in high-deductible plans with a savings option; that is only about 4% of covered workers. That enrollment rate is statistically the same as it was in 2005, and the latest survey found that relatively few firms are planning to adopt high-deductible plans that qualify for an HSA.

Those numbers don't surprise Cole. "Now some companies are looking at the plans, but not a lot are jumping on the bandwagon yet," she said. "In my opinion, the differences between a traditional plan and an HSA plan are not so great that it really encourages the employer to go to the HSA plan."

Some companies might find that a dual option, offering workers more traditional types of healthcare coverage along with the HSA-eligible policies, could work. "It depends on the individual demographics of an employee group," said Cole.

As for employees, personal demographics also are paramount. So if you do eventually get a chance to enroll in a high-deductible plan and HSA, either on your own or at a job, give it a close look. If it fits your family needs, it could save you some healthcare dollars. ★