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WHAT IS A HEALTH SAVINGS ACCOUNT?

Deductibles and coinsurance limits for most health insurance plans seem to be increasing exponentially over the past few years. When carriers pass along these initial expenses to members through high deductibles, it means that you should be able to lower your health insurance premiums making coverage more affordable. But how are we supposed to manage these considerable out of pocket costs? With a Health Savings Account (HSA), that's how. HSAs were signed into law in 2003 and were created for people to pay for health expenses.

So what are some of the advantages of owning an HSA?

You can enjoy favorable tax treatment in three different ways. The first way is by receiving tax deductions when you contribute to your account. Second, you will profit from tax-free earnings through interest and/or investment. And third, withdrawals are tax-free when used for qualified health expenses.

Most people obtain their medical coverage through their employer. HSAs are completely portable even if you change jobs. Once you own an HSA, it is yours to keep! In addition, contributions can be made by you, your employer (some exceptions apply) or both. However, total contributions are limited annually so these amounts must be coordinated.

There are no "use it or lose it" rules. As such, you have the flexibility to use the funds to pay for current expenses or grow your account by saving the money for future needs. Plus, should you ever become ineligible to contribute to your HSA, you may continue to use your account to pay for qualified health expenses.

You may pay for qualified health expenses that may not be covered under your medical policy such as dental and vision services. Under specific circumstances, you may also pay for insurance premiums. Most notably this includes COBRA continuation coverage after leaving a company under whose medical plan you were covered.

Now that we know some of the advantages, let's find out who is eligible to have an HSA? Any adult can contribute to an HSA if they:

1) Have coverage under a qualified high deductible health plan (HDHP). Notice the word "qualified". These policies are also known as HSA-compatible plans. Although many health plans may have what most would consider a high deductible, there are other criteria which may not make it a qualified plan.

2) Have no other first dollar medical coverage. The only exception is for routine well care.

3) Are not enrolled in Medicare. Under certain circumstances, individuals may be automatically enrolled. It is important to know your enrollment status so that any potential penalties may be avoided.

4) Cannot be claimed as a dependent on someone else's tax return. For example, if an adult child or an elderly parent has HDHP coverage, but you declare them as a qualifying relative to the IRS, they would be ineligible to establish or contribute to an HSA.

Everyone's situation is different. There are many things to consider when pairing a high deductible health plan with an HSA so it is important to work with an insurance professional and financial advisor you trust. Representatives in both industries must understand all aspects of this type of program as well as your intentions and goals so that the appropriate recommendations are made.

A complete list of qualified health expenses can be found under IRS Code Section 213(d). For additional information, see IRS Publications 502 (Medical and Dental Expenses) and 969 (Health Savings Accounts and Other Tax-Favored Health Plans). You may also learn more by visiting The Department of the Treasury's website.

In 1985, Ed Gaelick, CLU, ChFC, established PSI Consultants, LLC, where he specializes in company sponsored employee benefits, business planning and personal insurance. Throughout his career, Ed has received many of the highest professional honors awarded in the insurance industry. His integrity has earned him great respect from his clients, staff and business associates. His knowledge has made him a sought after speaker.

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