



The Pros and Cons of Health Savings Accounts

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HSAs are tax-advantaged savings accounts set up in conjunction with high-deductible health insurance policies. Enrollees or their employers make tax-free contributions to an HSA and typically use the funds to pay for qualified medical care until they reach their policy's deductible.

HSAs are not for everyone, and it is important to understand how they work before considering them to help fund health care costs.

Understanding HSAs

You are eligible for an HSA if you meet all four of the following qualifying criteria:

1. You are enrolled in a qualified high-deductible health insurance plan (known as a "HDHP").
2. You are not covered by another health plan (whether insurance or an uninsured health plan).
3. You are not eligible for Medicare benefits.
4. You are not a dependent of another person for tax purposes.

HSAs are generally available through insurance companies that offer HDHPs. Many employer-sponsored health care plans also offer HSA options. Although most major insurance companies and large employers now offer an HSA option under their health plan, it's important to remember that most health insurance policies are not considered HSA-qualified HDHPs, so you should check with your insurance company or employer to see how an HSA plan might differ from your current plan.

The maximum contribution to an HSA for 2011 is \$3,050 for single coverage or \$6,150 for family coverage. If you are over age 55 then you can contribute an additional \$1,000 regardless of whether you

have single or family coverage. Contributions are made on a before-tax basis, meaning they reduce your taxable income. Note that unlike IRAs and certain other tax-deferred investment vehicles, no income limits apply to HSAs.

HSAs offer investment options that differ from plan to plan, depending upon the provider, and allow users to carry account balances over from year to year. Earnings on HSAs are not subject to income taxes.

Any medical, dental, or ordinary health care expense that would qualify as a tax-deductible item under IRS rules can be covered by an HSA. A doctor's bill, dental procedure, and most prescriptions are examples of covered items. See IRS Publication 502 for a definitive guide of covered costs. If funds are withdrawn for any purposes other than qualifying health care expenses, you will be required to pay taxes on amounts withdrawn plus a 10% penalty.

Here are some pros and cons of this product.

Pros

- HSAs offer a significant annual tax deduction (up to \$7,150 in 2011 for an individual over 55 who opts for family coverage), making them particularly appealing to individuals in higher tax brackets.
- Withdrawals for qualifying health care costs (including long-term care insurance) are tax free.
- Investment income in HSAs is also tax free.

Cons

- Since HSAs must be tied to HDHPs, their ultimate savings must be weighed against how such plans stack up against more traditional plans, which may offer significantly better coverage.
- HSAs may not offer the flexibility and transportability that today's mobile American family requires, especially given that health plan offerings differ significantly from employer to employer and many smaller institutions have yet to offer an HSA option.

For more information on HSAs, see the U.S. Treasury's website at www.treas.gov (click on "Health Savings Account

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