

## Health Savings Accounts: a move in the right direction.

By now, many have heard the term health savings account or the abbreviation HSA. Surprisingly, a significant portion of the population mistakes an HSA for an FSA or doesn't fully understand what an HSA is.

A bit of history: On December 8<sup>th</sup> 2003 President George W. Bush signed into law the *Medicare Prescription Drug, Improvement and Modernization Act*. Inside that bill was legislation that created health savings accounts. One could argue it was simply an improvement of the existing Medical Savings Account (MSA). Either way, once MSAs became HSAs, there's been no looking back. Companies have been adding HSAs as additional options to their current offerings or moving to them altogether. According to a Celent survey from January of 2008, 8 Million people have health savings accounts. These numbers however reveal there is still a place for the traditional style plan.

What is an HSA?

Simply put, it's an individual bank account. In order to open a Health Savings Bank Account you must be covered by what is called a High Deductible Health Plan (HDHP). Deposits made to the account are tax free if the withdrawals are used to pay for qualified medical expenses. If your deposits are done through your employer, then all the taxes are handled by your employer's payroll department. If you make deposits into the account with after-tax dollars, you will want to make sure you provide necessary documentation when you file your annual tax return. Your tax professional can help make sure you receive the maximum tax benefit.

The Long View:

Our current education system graduates "workers" from college at or around 25 years of age. Then the system "graduates" them from work at or around 65. This gives us 40 working years. Let's assume Sam the salesman graduates from college, starts a family, and begins work at age 25. Let's also assume that the HSA contribution never goes above the 2012 limit of 6,250 per year and his level of taxation stays at a level 30%. This means that Sam will have the ability to sock away \$250,000 in his HSA, and save over \$75,000 in taxes. This is a significant amount of lifetime tax savings. IRAs and 401k's also can help you reduce your taxes, however those funds are very difficult to access while you are still working without incurring fees and taxes.

HSAs are a valuable financial planning tool. If you are not on an HDHP plan and contributing to an HSA account you should consider doing so. Medical expenses are something we face at all ages. The health insurance policy of the future will look a lot

more like your homeowners policy does today. It will be designed to cover catastrophic health expenses, leaving you with the responsibility of paying for “maintenance” items. HSAs are a wonderful vehicle to help us prepare for footing more of our own health expenses.