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## *Are savings a cure for health care costs?*



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More than three million Americans have health savings accounts, a three-fold increase over the one million participants reported only a year ago.

Additionally, the number is expected to rise to 29 million by the year 2010, according to a White House health savings account fact sheet released this month

With numbers like these, this is an increasingly important health care trend to understand.

Health savings accounts, or HSAs, were created by the Medicare bill signed by President Bush in Dec. 2003. They were designed to help individuals save for future qualified medical and retiree health expenses on a tax-free basis.

They have several of the benefits of a traditional individual retirement account.

All contributions are fully tax-deductible and grow tax-deferred. Contributions are capped at \$2,700 per year for individuals and \$4,450 for families. Contributions also can't exceed the amount of the participant's deductible. For example, an individual with a \$1,100 deductible could not contribute more than \$1,100 each year. To be eligible, an individual must be under 65 and also participate in high-deductible health coverage of at least \$1,050 for an individual or \$2,100 for families.

This plan was designed to give participants more control over their health care costs. Since individuals contribute the money, plan proponents say this allows people to make decisions without worrying about insurance coverage.

However, the plan also creates an incentive to consider carefully the costs of health care and decide if name-brand medicine, among other choices, is really necessary. If a consumer decides it isn't worth the extra cost, the consumer keeps the extra money.

This hands-on approach allows for more efficient use of the health care system we all share. Furthermore, even if an employer contributes to an individual's account, the money the employer contributes is the employee's to keep. If he, or she, doesn't spend it all, the money remains invested, available for the time when it is needed.

In addition to the greater choice offered, health savings accounts also have significant tax advantages. As with traditional individual retirement accounts, all contributions are a tax deduction and grow tax-deferred. This tax deduction, unlike others offered by the federal Government, is available whether the taxpayer chooses to itemize or not.

Health savings accounts are a similar concept to flex-spending accounts that have been offered for many years, but offer benefits flex-spending accounts can't.

For example, flex-spending account balances do not carry over from year to year. If a consumer doesn't spend the entire balance, it is simply gone.

With health savings accounts, the balance remains in the account and continues to grow. Additionally, flex-spending accounts do not earn interest, while health savings accounts do, which can greatly increase the amount of money consumers have free to spend.

In addition to tax savings, greater choice, and savings with interest, choosing a high-deductible plan should also decrease insurance premiums by 20 to 40 percent, depending on the chosen plan. Those savings can be used to fund a health savings account.

Finally, the accounts allow for long-term savings, much like individual retirement accounts, but for health care. Saving along the entire lifespan puts consumers in a better position to pay for health care when they get older and costs increase.

No matter the account-holder's age, any money removed for health costs is tax-free. Additionally, money may be removed for any purpose without penalty once a person turns 65, although it is subject to tax if used for costs other than healthcare.

While there are many advantages to health savings accounts, consumers also must balance trade-offs. Although some plan proponents suggest health savings accounts are a cost-effective way to ensure health care coverage for more people, critics contend most uninsured Americans cannot afford the out-of-pocket costs required. The accounts require savings of at least \$1,100 for an individual and \$2,100 for families. This is a large amount of money for families already struggling to pay for basic necessities. Even though the program is designed for low-income families, the high deductible is a barrier to their participation.

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