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Investing Smart in a Health Savings Account

Last year, new provisions went into effect on Health Savings Accounts (HSAs) that not only give individuals a better nest egg for serious health situations, but a nest egg that can serve them in other ways as well.

Now that the rules allow people to contribute more than their deductible, you can start to use HSAs for greater long-term savings. You can contribute pretax money to the account, where it grows tax-deferred and can then be used tax-free for medical expenses. That's a triple tax benefit.

More companies are letting individuals and families invest HSA money into mutual funds or directly into stocks, and over time, banks and investment firms are expected to enter the HSA business.

Here's a basic overview of HSAs and how you might get the most out of them:

The basics: Health savings accounts were created as part of the Medicare Modernization Act of 2003. Anyone under age 65 who buys a *qualified* high-deductible health plan (HDHP) can open an HSA. However, you can still own an HSA and be covered under other types of insurance policies that cover liability, dental, vision and long-term care needs.

How do I find a qualified policy? If you're employed, your employer obviously selects a qualified option and makes that available to you. However, for individuals or sole proprietors buying such policies, you need to put in some search time since HSAs haven't gotten much of a marketing push. Obviously, ask if your current insurer has a qualified plan, and there are websites you can search for ideas, such as www.hsainsider.com.

What are the 2008 HSA limits? The following cover the maximum contributions you can place in an HSA and the minimum and maximum deductibles for an HDHP insurance plan:

- Maximum HSA contribution: $2900 for individual, $5800 for families
- Minimum HDHP deductible: $1100 self-only coverage, $2200 family coverage*
- Annual out-of-pocket maximum: $5600 self-only coverage, $11200 family coverage
- If you are 55 or older and your HDHP is in effect, you are eligible to deposit catch-up contributions, and in 2008, the additional amount is $900.

If I find a policy, should I automatically buy it? No. Since this is a tax issue as well as an insurance issue, it makes sense to discuss this decision with your tax or financial advisor, such as a Certified Financial Planner ™ professional.

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What's the difference between an HSA and a medical flexible spending account (FSA)? One important difference is that HSAs allow balances to be rolled over from year-to-year, growing on a tax-free basis as long as they're used for medical expenses. On the other hand, Medical FSAs require that the money you contribute each year has to be spent by year-end (or a brief grace period if provided by the plan) or you'll lose it. But in certain cases, such as when you incur medical expenses early in a year, you can be reimbursed by your FSA without having to fully fund it – so FSAs might be a bit more flexible in this regard. Get help from your tax or human resources professional.

Can I have both an HSA and a flexible spending account? It depends. If your FSA provides for limited reimbursement for items not covered by your health insurance plan (such as dental, vision, or wellness care), you can use an HSA for items covered by your plan and your FSA for medical expenses that are not. Obviously, double-check this with an expert.

What happens if I need to use my HSA dollars for any non-medical reason before age 65? You'll get hit with a 10 percent penalty, plus any withdrawals will be taxed at ordinary income tax rates. After age 65, you're free to use the funds for any purpose without penalty, but non-medical withdrawals are still taxable.

Can I use my IRAs to fund an HSA? Yes, on a one-time basis. The new rules let individuals roll over money from an IRA once so people can use the money tax-free for medical expenses, but the amount of the rollover is limited to the HSA maximum contribution for the year minus any contributions already made.

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