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New rules enable healthy savings

By Linda Stern

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WASHINGTON (Reuters) - Health Savings Accounts are a great deal, and they are about to get even better. The 109th Congress, in one of its final acts, expanded the tax breaks that are linked to these accounts.

The new rules, which go into effect January 1, 2007, will make it easier for workers and their families to build a sizable

health-care nest egg to see them through the high-health-care consuming retirement years. But you have to know how to make the best of them.

An HSA is a tax-favored savings account that is paired with a traditional but high-deductible health insurance plan. The health plan may cover most of your medical costs, but you are responsible for the deductible and other co-pays.

To really appreciate these accounts, you need to adjust your attitude a little and accept that you will be paying more out of pocket right off the bat. HSAs have high deductibles: In 2007, the minimum deductible for a qualified plan is \$1,100 for single coverage and \$2,200 for family coverage. They've been criticized as unaffordable for folks who live at the financial edge and don't have the extra cash to meet their deductibles.

But if you can afford to set aside that deductible amount in an HSA savings account, you can save big. The premiums tend to be lower than they are in traditional insurance plans. And your contributions are tax deductible. The real savings come into play if you can afford to let your HSA build up without tapping it. If you can pay out-of-pocket costs from your regular checking

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account, you're really positioned to profit from these accounts and from the new provisions. Here's how.

-- Load it to the max. For 2007, you're allowed to put away as much as \$2,850 for single coverage or \$5,650 for family coverage in your HSA account, even if your policy's deductible is less than that. That's a new provision and worth taking advantage of. HSA holders 55 or older can stash an extra \$800 in their accounts.

-- Invest it. Some banks and investment companies which offer HSA savings accounts offer companion investment accounts. Consider the amount you've put into your HSA as a long-term investment, and put it into stocks, bonds or mutual funds just as you would any other tax-advantaged retirement asset. (You can search for a good plan at <http://www.hsainsider.com> or <http://www.ehealthinsurance.com>.)

-- Pay out of pocket for your health-care costs and don't use the HSA money unless you absolutely must. This will enable you to build that HSA nest egg for retirement -- a time when you'll need close to \$300,000 for health care alone, according to the Employee Benefit Research Institute.

-- Push your employer a little. The new rules encourage employers to offer HSAs to workers by allowing them to offer their employees the option of moving money from existing Flexible Spending Account or Health Reimbursement Accounts into an HSA. Let your boss know about these rules and encourage the shift. Over the long term, you'll benefit more from an HSA than a flexible account you have to drain every year.

-- Make a full contribution in your first year. Old rules required you to prorate your first-year contribution to an HSA, based on when you got the policy. That seemed unfair, as deductibles are never pro-rated, even if you join part way through. The new law allows the full deduction even if you join late in the year.

-- Pass on the IRA transfer. The new law also allows individuals to seed their HSAs with money from their IRA accounts. It allows a one-time transfer from the IRA to an HSA, up to the maximum HSA contribution for that year. If you're close to retirement, that could be a good way to get some money out of your IRA without having to pay taxes on it. But basically, it's not netting you

any new savings, and you'd be better off leaving your IRA intact and seeding your HSA account with extra money -- if you can afford to do it.

(Linda Stern is a freelance writer. Any opinions in the column are solely those of Ms. Stern. You can e-mail her at [lindastern\(at\)aol.com](mailto:lindastern(at)aol.com).)

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