

Open Enrollment on the Way: Should You Take Advantage of Your Company's Health Savings Account Option?

Fall is approaching, which means for many workers that open enrollment is coming. Open enrollment is a specified time period during which companies let their employees sign up for various health and retirement savings benefits as well as smaller benefit options that may be unique to a company.

One of those options might be a health savings account, also known as an HSA. 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.

Why are companies offering these plans? Because a high-deductible health plan option allows the company to save money while giving their employees a shot at lower or stable monthly individual and family premiums. And it's important to know that in 2007, the contribution rules on these plans changed. Previously, the maximum contribution was calculated as the lesser of the deductible of the high-deductible health plan or a specific indexed amount. Now, the limit is the maximum annual contribution alone.

What's the big advantage to choosing one? Contributions are made to HSAs on a pretax basis where they are allowed to grow tax-deferred and spent out on a tax-free basis for medical expenses. HSA contributions could be made through a company's cafeteria plan if allowed by the company's cafeteria plan document, and can potentially save FICA/Medicare taxes on the contribution along with federal and state taxes.

Yet there are some critical things to know before you make the switch:

Get some individual financial advice first: The enticement of potentially lower or more stable health insurance premium increases may lead you to jump immediately, but it makes sense to speak to your tax professional as well as a financial adviser about how an HSA should fit into your overall financial strategy.

Understand your 2008 HSA limits: The following cover the maximum contributions you can place in an HSA and the minimum and maximum out-of-pocket amounts 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.

Know 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 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.

Know whether you can have both: In some situations, you may be able to have both an HSA and an FSA. 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.

Know penalties for non-medical withdrawals: 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.

You may actually use an IRA to fund an HSA on a one-time basis: The 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.