

Is a Health Savings Account right for you?

Whether you're buying health care as an individual or as part of an employee benefit, there is a new way of financing a portion of your costs. It's called a "health savings account." They're popular, but you need to be thoughtful in deciding if an HSA makes financial sense to you.

Here's how an HSA works: It's a tax-free account that you own, much like a 401(k). Each year, you can set aside a certain amount of money in this account. Your employer can contribute to the account as well. The money must be spent on certain eligible medical care expenses. The account can be used for co-pays, deductibles, prescriptions and other medically related costs-from braces to crutches and from eyeglasses to prescriptions. If you don't spend the money in your account, you can carry the balance over to another year-even another job-and add to it.

You can even invest your account balance, and the investment gain is not taxable. Plus, after you turn 65, if you have money in the account, you can spend it for any purpose-medical or not-and it retains its tax-favored status.

The theory behind the account is that if you control the money, instead of having costs paid by the insurance company or your employer, you will be a wiser shopper and will demand a fair price and good value. Consumers like having this control.

Employers like the accounts, too, because they can offer them in conjunction with a high-deductible plan to cut the rate of increase in their health care expenditures.

This could explain why the Center for Studying Health System Change predicts that HSAs could capture between 15 and 50 percent of the health care market by 2010.

So far, so good. What's the catch? For one, the accounts must be paired with a high-deductible plan that has a deductible of at least \$1,000 for an individual and \$2,000 for a family. If you have medical expenses that reach that deductible, you must pay for the full deductible from your account.

Critics of HSAs fear that the accounts are a good deal for healthy people with few medical expenses, but a bad deal for those with a lot of medical expenses. The sick could exhaust their account and still face high copayments for additional care.

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If you are interested in considering a health savings account, experts recommend that you should:

Beware of fees. Some accounts charge set-up fees, monthly maintenance fees, transaction charges, annual charges and closing fees. Avoid them if you can.

Make sure you have lots of options.

Some funds only allow interest like savings accounts. Others let you invest in mutual funds. The more options, the better.

See which are easier to use.

The best offer withdrawal and contribution online, and allow you to make “crossover” payments directly to your health plan.

Make sure your employer is contributing.

It won't do you much good to have a high deductible plan if the total deductible amount is yours to finance. For most HSAs at places of employment, the employer will kick in an amount that balances out the lower premium you'll pay for a higher-deductible plan.

HSAs are worth considering. Some health plans have calculators that help you figure out your estimated annual medical expenses and then plug that number into your plan options to select the best plan for your personal situation. Don't be afraid to ask an expert for advice before you try these new plans.

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