The Stevens Advisor

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PLANNING YOUR HEALTHCARE COVERAGE

Is a HEALTH SAVINGS ACCOUNT/High Deductible Health Plan Right for You?

What is an HSA?

A Health Savings Account (HSA) is an account, similar to an IRA, to which an individual (or employer) can make pre-tax or tax deductible cash contributions. Contributions to the account may be used to pay for current and future medical expenses.

The funds in an HSA are invested, thereby having the potential of further tax benefits, since neither the money you put into the account nor any profits made from the investments will be subject to any taxes.

Additionally, HSA balances carry over from year to year, accumulating if they're not used (unlike "Flex Accounts").

The maximum contribution to an HSA for 2017 is $3,400 if you have single coverage, or $6,750 if you have family coverage

Who is eligible to contribute to an HSA?

In order to be eligible to contribute to an HSA you must be covered by a High Deductible Health Plan ("HDHP").

You are NOT eligible if you are

- covered by other health coverage (other than specific injury coverage and accident, disability, dental care, vision care, or long-term care coverage);
- eligible for Medicare;
- claimed as a dependent on someone else's tax return; or
- if you contribute to a standard Health Flexible Spending Account (although a Limited Health Care Flexible Spending Account is allowed).

What is an HDHP?

High Deductible Health Plans are often advertised touting their low rates. Like traditional health care plans, HDHPs usually cover a wide range of medical and prescription costs-- but only after a steep annual deductible has been paid.

In general, for 2017, a health plan qualifies as a "high deductible" health plan if it has a deductible of at least $1,300 and an out-of-pocket maximum of $6,450 for single coverage; and a deductible of at least $2,600 and an out-of-pocket maximum of $12,900 for family coverage.

Is a combination of HSA/HDHP right for you?

There are mitigating factors, for example:

- Lower monthly premiums are offset by high deductibles. You must be able to maintain a large enough balance in your HSA to pay the medical bills to meet the deductible.

- If you encounter unexpected medical problems your healthcare costs could exceed what you had planned for, and you may not have enough money saved in your HSA to cover expenses.

- The psychological pressure to maintain a high balance in your HSA may cause you to be reluctant to seek healthcare when you need it because you don't want to use the money in your HSA account.

HDHPs generally appeal more to healthier people with no chronic ailments that require regular care. That's because high-medical-maintenance individuals are likely to end up burning through the entire deductible, effectively upping the costs above low-deductible plans. For instance, an HDHP with a monthly rate that is $100 less than a low-deductible plan will end up costing more if you end up shelling out over $1,200 before you use up the deductible.

If having a high deductible seems too risky to you – or if you anticipate having significant healthcare expenses – a plan with a lower deductible and lower co-pays might make more sense.

How do I contribute to an HSA?

As noted, the maximum contribution to an HSA for 2017 is $3,400 if you have single coverage, or $6,750 if you have family coverage. Your employer may offer an HSA to which you can contribute on a pre-tax basis.

Whether or not your employer makes an HSA available to you, you may contribute to an HSA on your own, without your employer's involvement. In that case, you would find an HSA provider of your choice, and arrange to contribute to the HSA. Assuming you are eligible, you can take an above the line tax deduction for such HSA contributions.

Remember, you must have a High Deductible Health Plan in place to qualify for an HSA.

Before choosing a plan, be sure to consider the following:

- *Coverage:* What types of care are or are not covered? Are prescriptions covered? How about physical therapy? Is there a limit on doctor visits? Is preventive care excluded from the deductible? Coverage will differ from plan to plan. Look for specific options that are applicable to you or your family.

- *Caps on Coverage:* Is there a limit on hospitalization costs or lifetime coverage? Is it high enough to cover costs for unforeseen issues such as a heart attack or treatment for chronic ailments? More serious procedures can cost many thousands and use up a lifetime limit quickly.

- *Copays:* Is there a high copay percentage? What does it apply -- or not apply -- to? The cheapest plans usually have the highest deductible and the largest copay percentage.

- *HSA Eligibility:* Does the plan qualify as an HDHP under IRS rules? The IRS sets limits as to what qualifies as an HDHP. For 2017, a plan can be considered an HDHP only if its deductible is at least $1,300 for a single individual or $2,600 for a family. Make sure to check if an HSA plan option applies.

- *Selection:* How extensive is the preferred provider network? Does it offer adequate selection in your area? What is the coverage for out-of-network providers?

If you're considering a high-deductible plan, talk to your Client Account Manager, who can put you in touch with experts to help you select the type of plan that best suits your specific needs. Additional information may also be found at healthcare.gov.

— Some information taken from an article provided by the Financial Planning Association, of which Stevens Foster's Deb Groezinger is a member