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Lynn's Top Five

HEALTH SAVINGS ACCOUNTS (HSA) – FIVE THINGS YOU NEED TO KNOW

By Lynn Ballou, CFP, EA

1) WHAT IS A HEALTH SAVINGS ACCOUNT (HSA) ?

Basically an HSA is a tax deductible retirement account, but one that can only be tapped into to pay for "qualified" medical expenses. As a result of this use, they are being referred to in the press frequently as the "MEDICAL IRA."

2) WHO CAN GET ONE?

Any taxpayer who is enrolled in a "HIGH DEDUCTIBLE" medical insurance plan through the end of the year, and for at least 12 months, can fund an HSA. (However, please note, that the taxpayer cannot be enrolled in Medicare.) So, what is a high deductible medical plan? One that has a deductible of at least $1100 per plan member, or $2200 for family coverage.

3) HOW MUCH CAN SOMEONE PUT IN?

You can put in $2900 for yourself, or $5800 for your family. And if you are 55 or older, you qualify for an additional $900 contribution for both self and family coverage under the "catch-up" provision. As Linda pointed out to me, what's particularly great about these plans is "your contributions are 100% tax deductible regardless of your income level. And there is no phase out to this deduction."

4) NO MORE USE IT OR LOSE IT!

The other very attractive feature which sets it apart from the pre-tax medical plans you might be using at work, according to Linda, is that "HSA's are not a use it or lose it type of plan. A person may contribute the annual maximum amount to their account and save these contributions for future medical costs allowing for tax-free growth." However, as she also points out, to avoid taxation, the benefits must be used at some point for qualified medical costs.

5) FOR 2008 – IRA MONEY CAN BE USED TO FUND AN HSA.

You can now make a one-time election to transfer IRA assets into an HSA. It must be done as a trustee to trustee transfer with pre-tax assets. Although this won't give you a tax deduction, if you are over-funded in your IRA, or you simply want to be able to tap into these funds before you turn 59 – ½, this might be a helpful tool for you to consider.

Health Savings Accounts have been getting a lot of press lately. Originally they were passed into existence by Federal Legislation as part of the Medicare Prescription Drug Act of 2003. However, due to new broader eligibility laws passed last year, these nifty accounts are now available more widely than ever before. I spoke with my colleague, Linda La Honta, a CPA with Moore and Baker in Walnut Creek, to get her take on the deductibility features regarding this newest idea in the planning tool box. With her assistance, here are five things you need to know to help determine if you should think seriously about adding an HSA to your portfolio.

There is, of course, a lot more to say about these plans, and nuances to consider. So be sure to contact your tax or financial planning advisor for more detailed information and to decide if they are a good vehicle for you. Hopefully this has given you a leg up in your decision making process. Wishing you a good tax season and, yes, many "happy returns!"

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Lynn is also a Registered Principal and Branch Manager with Linsco/Private Ledger (LPL). As such, she is required by securities regulations to add the following information to this column: The opinions voiced in this material are for general information only and not intended to provide specific advice or recommendation for any individual. Securities offered through Linsco/Private Ledger, member NASD/SIPC.