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**“If your family is healthy and you live in a state with a competitive health-insurance market, you may be able to buy a family policy that costs 25% to 50% less than employer-sponsored coverage, says author Pilzer.”**

## Open Season for Health Savings

by Thomas M. Anderson

*Buying the right insurance could put thousands of dollars in your pocket.*

Sometimes open-enrollment season for health insurance seems like Christmas in reverse: Instead of a bonus, the packet from your boss tells you how much more you'll have to pay for coverage in the year ahead.

Employers expect the cost of health benefits to rise about 8% in 2007, according to a survey by the National Business Group on Health and benefits-consulting firm Watson Wyatt. To keep costs down, companies have increased the amount their employees pay for everything from hospital stays to brand-name drugs. And to encourage you to comparison-shop for health care, more companies are offering high-deductible insurance policies coupled with tax-free health savings accounts (HSAs). You may find such a plan on your open-enrollment menu.

In 2004, fewer than 10% of midsize and larger firms offered a high-deductible option, according to Watson Wyatt. In 2007, more than 60% will. Signing up for such a plan could save you thousands of dollars in taxes and premiums. But not every employer's plan is equally generous.

**Tax breaks.** In 2006, a high-deductible policy is one that has a deductible of at least \$2,100 for a family or \$1,050 for an individual. That's how much you have to spend out of pocket before insurance pays for anything beyond some preventive care. In return, you may be eligible to open an HSA, which gives you multiple tax breaks.

You can fund your HSA with pretax dollars up to the amount of your insurance deductible—with a maximum this year of \$5,450 for families and \$2,700 for individuals (if you're age 55 or older, you can contribute an extra \$700). If you're in the 25% tax bracket, for example, contributing \$4,000 to an HSA will cut your taxes by \$1,000. You

can withdraw the money tax-free at any time to pay for eligible out-of-pocket medical expenses. If you withdraw the money for other purposes, you'll owe taxes plus a penalty.

Unspent balances roll over from year to year and continue to grow tax-deferred. After age 65, you can use the money for any purpose without paying a penalty, although you'll owe income taxes on withdrawals for nonmedical purposes. So the HSA can be a supplemental retirement account.

The tax benefits, combined with lower premiums for a high-deductible policy, can mean money in your pocket. That's especially true if your employer kicks in to your HSA. On average, workers with HSA-eligible policies got an employer contribution of \$1,185 in 2005 for family coverage and \$553 for an individual plan, reports the Kaiser Family Foundation. But one-third of employers offering HSA-eligible policies don't contribute anything, and some companies don't pass along premium savings.

Al Meginniss was offered a high-deductible plan with an HSA as his only health-care option by his employer, Lutheran Social Services of Illinois. But Meginniss, who lives in Schaumburg, Ill., isn't complaining. He figures that the family plan, which also covers his 20-year-old son, Patrick, will save him more than \$2,400 a year in premiums compared with his old health insurance. Although some of the savings will go toward paying the \$2,100 deductible on his new policy, "I'm still going to come out a couple of hundred dollars ahead," says Meginniss. "This is a no-brainer for me."

**Will you benefit?** High-deductible health-insurance plans aren't always the best deal, even when the premium is lower. If your employer offers multiple insurance options, figure out which one gives you the best access to the physicians and services you and your family actually use. "It doesn't do any good to buy a health-insurance policy that doesn't cover your doctors," says Paul Zane Pilzer, author of *The New Health Insurance Solution*. Your doctor's office may be able to help you sort through the alternatives.

You can also estimate next year's expenses based on what you'll spend on health care in 2006, then use your employer's worksheets or online calculators to compare the cost of each plan. Pilzer recommends that you plug in hypothetical medical expenses of, say, \$500, \$5,000 and \$50,000 to see how coverage would work at each level.

Be sure to add up your total out-of-pocket costs. That includes not only your premium and deductible but also any co-payments for office visits or prescription drugs, plus coinsurance -- the percentage of costs, often 10% to 20%, that you'll have to pay above and beyond the deductible. Your employer should be able to provide you with a list of out-of-pocket maximums for all of your health-insurance choices.

Another factor is your peace of mind. If you're the type of person who wants your auto insurance to cover everything that could possibly go wrong with your car, then a high-deductible health-care plan is probably not the best fit for you, says Jeff Munn, a benefits

consultant with Hewitt Associates. If you don't mind taking on more risk in exchange for a lower premium, a high-deductible policy may be just the ticket.

**HSA versus FSA.** Don't confuse an HSA with the more familiar flexible-spending account (FSA), or flex account. Like an HSA, a flex account lets you set aside tax-free dollars you can use to pay for medical expenses that aren't covered by insurance. Unlike an HSA, a flex account isn't tied to a high-deductible policy. Also unlike an HSA, money left over in a flex account can't be carried over -- if you don't use it, you lose it.

Because you can roll over the money in an HSA, you can use the account as another way to save for retirement. HSAs often work well for older, higher-paid employees who don't need to tap their accounts and for workers whose employer contributes to their accounts.

When you use your HSA to save for retirement, pay close attention to your investment options. For the long term, you don't want to be stuck in a savings account paying 2%, so you'll want alternatives more suitable for retirement savings. Mutual funds from seven of the ten largest fund companies are available in HSAs, and Fidelity will get into the HSA business this fall.

Also pay attention to fees. An Atlantic Information Services study of more than 280 firms that offer HSAs found that annual fees ranged from zero to \$75; the average was \$10. Some providers charge an account-setup fee that can be as high as \$300.

**On your own.** You'll likely find the best health-insurance deal for yourself through your employer's plan. That's especially true if you have health problems, because employers offering health benefits have to cover all employees, regardless of their medical condition.

Don't assume, however, that your spouse and your children will get the most affordable coverage through your employer. Companies often add a surcharge if your spouse and family members have access to health insurance elsewhere -- say, through your spouse's employer. The surcharge can be hundreds of dollars a month. And employers will sometimes give you cash or other incentives to forgo their health benefits entirely.

If your family is healthy and you live in a state with a competitive health-insurance market, you may be able to buy a family policy that costs 25% to 50% less than employer-sponsored coverage, says author Pilzer. Call the insurer that administers your employer's plan and ask for quotes on individual policies. Watch out for any limitations on coverage or exclusions for preexisting conditions. Typically, more restrictions are placed on individual policies than on employer-sponsored coverage. Compare costs at [www.ehealthinsurance.com](http://www.ehealthinsurance.com).

And remember that one size does not fit all. When it comes to health insurance, says Pilzer, "no two families and no two employers are alike."

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