

## Health Savings Accounts Offer Triple Tax Savings

*By Bobby Mason, Life & Health Advisor*

The Tax Relief and Health Care Act of 2006, signed into law Dec. 20, 2006, infused Health Savings Accounts (HSAs) with new taxpayer-friendly changes designed to make the accounts more attractive.

Health Savings Accounts (HSAs) were created by the Medicare bill signed by President Bush on Dec. 8, 2003, and have gained in popularity since they were first introduced. The accounts are designed to help individuals save for qualified medical expenses on a tax-free basis. (See below the article for the list of qualified expenses.)

HSA funds may also be used to pay for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

### **Triple Tax Savings**

The greatest advantage of HSAs is that they provide triple tax savings:

- Contributions to an HSA are 100% tax free.
- Any HSA earnings through investment are tax free.
- Monies withdrawn for qualified expenses are always tax free.

### **Who Qualifies for HSAs?**

An HSA can be established by an individual who:

- Is covered under a qualified high deductible health plan (HDHP)
- Is not covered by any other health plan that is not an HDHP
- Is not enrolled for benefits under Medicare

HSA contributions are used to pay for qualified medical expenses until the HDHP's deductible is reached. Once the deductible is reached, the HDHP begins paying the medical expenses. Any remaining money in the HSA is carried forward into future years until used.

### **HSA Changes for 2007**

HSA changes made for 2007 provide new incentives to take advantage of these tax-saving accounts:

- The minimum deductible for high deductible health plans increases to \$1,100 for individual coverage and \$2,200 for family coverage.
- The maximum annual HSA contribution is \$2,850 for an individual and \$5,650 for a family. (These amounts are the maximum contribution regardless of your deductible.)
- Individuals who are 55 or older can make a catch up contribution of \$800.
- A one-time, tax-free transfer from an IRA into an HSA is now allowed, though the transfer cannot be made before 2008.
- Individuals may now make a one-time, limited transfer from a health flexible spending account into an HSA.

### **How Do HSAs Compare with FSAs?**

Unlike HSAs, FSAs (flexible spending accounts) cover qualified medical expenses no matter what your deductible. A qualified HDHP is not required for FSA participation. However, FSA funds do not roll over to the next year. You lose the money you didn't use. However, HSAs roll over year after year.

If your current health plan doesn't qualify for a HSA, talk with your insurance agent to see if you could be saving money. If you have a high-deductible health plan, Pinnacle can help you open your HSA. Go ahead and start saving money today.

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