Karen Telleen-Lawton: Health Savings Accounts Worth a Look

It's a viable option if you're considering a change in your health-care plan

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 03.15.2011 9:17 a.m.

Most Santa Barbara residents cobble together a living from small companies, small jobs and small favors. So when it comes to health insurance, many buy individual health plans that lack the pricing advantage that large companies offer. We compensate by buying plans with large deductibles to reduce our monthly outlays.

Health Savings Accounts (HSAs) were designed for just our kind of folk. They're one of the best new(ish) deals in the sorry story of rising health-care costs and health-care premiums. I rediscovered HSAs while studying for my Certificate in Financial Planning, but didn't get around to setting one up until the most recent flurry of new medical plans.

The HSA started as a pilot program called the (Medical Savings Account (MSA), wherein self-employed workers and employees of companies smaller than 50 could shelter money from income tax to pay medical bills — if they had a high deductible plan. The pilot program ended in 2003 and was replaced in similar form by the HSA.

If you're contemplating a change in your health-care plan — Anthem Blue Cross just sent out new plans to address the new health-care rules to all individual clients — now is a great time to consider an HSA.

Among the options with our health-care provider are several plans whose names included HSA — a good clue to the fact that they qualify for HSA treatment. The main requirements are a family deductible of at least $2,400 per year and a maximum annual family out-of-pocket cost of $11,900. If the plan passes these hurdles, you can fund an HSA with up to $6,150 per year, plus $1,000 more if you're older than age 55.

After enrolling in the new medical plan, your friendly neighborhood bank will help you set up an HSA account from which to pay medical bills. Our bank covers the whole process online and waives the small monthly fee when the account balance is more than a couple thousand dollars. The only part I'm not happy about is that you must choose from their family of investments rather than the universe of investments. That typically means lower returns because of sales charges.

You can contribute to an HSA only up until the time you enroll in Medicare. However, you can continue to use your money in the account. You can even spend the money on nonmedical items after age 65, although those withdrawals would be subject to income tax.

While some might not consider HSAs the most exciting thing to contemplate, it beats griping about health-care costs and the advisability of health care for all. Interestingly, the new plan we chose from our health-care provider costs almost precisely the same as the old, but has no lifetime maximum (now mandatory), a lower annual out-of-pocket maximum, and lower costs (than we paid before) for choosing an out-of-network provider. These are kind of the biggest elements for me.

In today's more austere world, practicality is sustainable. The new health-care mandates such as no lifetime caps are forcing insurance companies to rethink their offerings. In combination with HSAs, this may be a way to keep medical insurance costs down, while getting the consumer back into the health-care economy and perhaps helping to slow health-care cost rises — but that's a whole other discussion.

— Karen Telleen-Lawton's column is a mélange of observations supporting sustainability. Graze her writing and excerpts from Canyon Voices: The Nature of Rattlesnake Canyon *at www.CanyonVoices.com*.