



Health

## How To Save Money On Health Care

Allison Van Dusen, 09.17.08, 4:15 PM ET

With the economy sagging and the cost of health care steadily rising, it's a smart time to think about ways to save on health care without giving up benefits. Chances are, however, you're still confused about one of your options: the health savings account (HSA).

Available since 2004, HSAs allow consumers who qualify to sock away a limited amount of money, pretax, to pay for health expenses now and anytime down the road. The money accrues interest and can be used to cover some expenses that insurance plans often exclude. Premiums for family health coverage have increased 78% since 2001, according to a 2007 Kaiser Family Foundation report, making HSAs all the more helpful. Yet while the number of people using HSAs has grown in recent years, a lot of Americans are still leaving the option on the table.

### [In Depth: How To Save Money On Health Care](#)

The reasons vary, according to a May report from the U.S. Government Accountability Office. The paper showed that the number of people covered by inexpensive, HSA-eligible, high-deductible health plans jumped from about 438,000 in September 2004 to 6.1 million in January 2008. Yet, from 2005 to 2007, between 42% and 49% of eligible enrollees hadn't opened an HSA, and 20% to 24% said they weren't planning to, either because they didn't feel they could afford to contribute to an HSA or didn't need one.

But there's a much simpler answer to the question of why people don't open HSAs: "Do people understand how an HSA can be useful or how to use it financially?" asks Gautam Gowrisankaran, associate professor of economics at the University of Arizona. "I doubt it."

While HSAs do tend to benefit wealthy enrollees, who can use the accounts to accumulate savings with singular tax advantages, experts say the product is worth a second look for a range of consumers--if they know what to do with it.

Unfortunately, people often don't. Dr. Stephen Neeleman, CEO and founder of the personal health care financial services company HealthEquity, says he talks to people every day, CEOs included, who don't understand the HSA basics, the first being that money put into an HSA rolls over year after year. Health insurance jargon is also an annoying foreign language to many people, who may not have the time, energy or interest to evaluate their health care options regularly.

That can be a stumbling block for some considering HSAs, since they need to make sure they're enrolled in a high-deductible health insurance plan. These plans, which usually have low

premiums, typically don't pay for the first several thousand dollars of health care expenses incurred--i.e., the high deductible--but generally cover you beyond that level. The HSA can be used to help pay for the initial, uncovered expenses. (High-deductible health plans also often cover preventive care free of charge and apply higher out-of-pocket limits for out-of-network services.)

### **Maximizing The HSA**

If you're contemplating starting an HSA and want to get the most out of it, experts say the sooner you establish it the better. In particular, low-premium, high-deductible insurance plans make sense for young people, who tend to have low health care costs. HSAs are also a great way to plan financially for retirement, since that's when people tend to get hit with big health expenses. It's a matter of putting away money now for health care costs certain to come later, rather than dipping into other savings or investments.

More financial advisers are now urging their clients to make HSAs their [first funding target](#), according to Information Strategies, a management information source for small and medium-sized businesses. That's because users can make pretax contributions, accrue tax-free interest (except in a handful of states) and use the money any time they want, tax-free, for medical purposes. Contributions also can be [invested](#) in stocks, bonds, mutual funds and certificates of deposit, some of which require minimum balances.

As a result, you should try to put in the [maximum allowable contribution](#), says Donald Mazzella, editor of [HSAfinder.com](#), a Web site that aims to provide unbiased, independent information about HSAs. Currently, the maximum contribution is \$2,900 for individuals and \$5,800 for families. In 2009, it will be \$3,000 for individuals and \$5,950 for families. (If you can't hack that, shoot to contribute at least half of your deductible each year, Neeleman says.) Those inching close to retirement should also take advantage of catch-up contributions, which allow people 55 and older to put in an additional \$900 this year and an extra \$1,000 in 2009.

Mazzella argues that the accounts make sense for people with low incomes too. Tough as it might be for them to save, those with lower incomes will have to pay their health expenses one way or another. If their options are charging the bills on a high-interest credit card or making pre-tax contributions to an HSA, one makes more sense than the other, he says.

***Do you have an HSA? What are the pros and cons? Weigh in. Add your thoughts in the Reader Comments section below.***

Taking full advantage of an HSA also means doing homework when it comes to health care choices. To deal with your high deductible, Neeleman says you should spend time comparing prices for [non-urgent care](#), such as prescriptions or lab work. You also should peruse a list of what your HSA can be used to pay for, which includes some surprising things, such as acupuncture and medical tourism (the full list is available at [www.irs.gov](#)). Since you own your account, you can also use your HSA to pay for COBRA continuation health coverage if, say, you're in between jobs and lose your health benefits.

### **Pay Contributions--And Attention**

Some of the common mistakes people make when dealing with HSAs include not keeping track of their [receipts](#) and annual account limits. You're solely responsible for knowing what is considered to be a qualified medical expense and should be able to defend your decisions should you be audited, Neeleman says. If you put too much money into your HSA in a given year and don't realize it before your taxes are due, you could face a 6% excise tax on your excess contributions.

Since part of the purpose of opening an HSA is to save, you also should look at your account's service fees, says Gowrisankaran. In other words, [shop around](#). While some accounts don't have fees, others charge minimum balance, deposit and/or withdrawal fees.

Still confused? Sit down with your company's benefits manager or put out inquiries with HSA providers and ask questions. What you get out of an HSA has a lot to do with what you put into it.

"It all depends on how proactive you are," Neeleman says.

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