Are Health Savings Accounts Right For You and Your Employees?

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Healthcare has obviously become a hot-button topic over the past couple of years. The controversial Affordable Care Act passed in 2010, but if anything, this stirred up the healthcare debate even more, with Republicans vowing to "repeal and replace" the Act if they regain the White House and Congress.

While there are many details about healthcare reform that are subject to interpretation and open for debate, the one thing that practically everyone agrees on is that the soaring cost of healthcare is unsustainable over the long term. So whether reform ideas are government or market based, they all have one major goal in common: reducing the cost of healthcare and health insurance.

Consumer Driven Healthcare and HSAs

On the market-based solution side, one idea that has taken root among many individuals and businesses is the concept of "consumer-driven healthcare," or CDHC. Here, individuals take more personal healthcare financial responsibility by contributing a higher percentage of their healthcare costs and making more spending decisions themselves.

At the center of the CDHC movement is a relatively new type of healthcare plan called a Health Savings Account (HSA). With an HSA, employees (and their employers if they choose) make tax-favored contributions to accounts that are dedicated to the payment of medical expenses. Money contributed to an HSA can then be withdrawn as needed to pay for qualified medical expenses.

Health Savings Accounts are established along with high-deductible health plans (HDHPs) that are used to cover medical expenses that exceed the balance in the HSA. In 2012, the minimum HDHP deductible is $1,200 for individuals and $2,400 for families, while the maximum out-of-pocket deductible is $6,050 for individuals and $12,100 for families. (Purchasing a higher deductible plan will lower premiums.)

One of the benefits of HSAs is that, unlike Flexible Spending Accounts (FSAs), they aren't "use it or lose it." In other words, unused HSA funds can be carried over from year to year with no limit, and employees can keep their HSA balances when they change employers. If healthy, this makes it possible for an employee to accumulate a large balance in his or her account over a lifetime that can be used to help pay for healthcare during retirement.

In 2012, individuals may contribute up to $3,100 and families may contribute up to $6,250 to their HSAs. An extra $1,000 catch-up contribution is available to individuals and families who are at least 55 years old. In 2013, the annual contribution limits rise to $3,250 and $6,450.

Tax Benefits of HSAs

HSAs also offer a number of tax benefits. Employee contributions are tax-deductible, just like contributions to traditional IRAs and 401(k)s, thus helping reduce their current tax bite. And withdrawals are tax-free if they are used to cover qualified healthcare expenses (including deductibles, co-pays, prescription medications, and dental and vision care). Note, however, that non-qualified withdrawals are subject to income tax and a 20 percent tax penalty.

Like they can with qualified retirement accounts, employees can invest their HSA funds however they like—conservatively in low-yield money market and savings accounts, or more aggressively in stock and bond mutual funds, for example. All HSA earnings accumulate tax-free until they are withdrawn. In order to participate in an HSA, an employee must meet the following criteria:

- Be covered by a high-deductible health plan.
- Not be covered by any other health insurance plan (excluding accident, injury, dental, vision and long-term care insurance plans).
- Not be eligible for Medicare.
- Not be claimed as a dependant by anyone else.

Concluding Thoughts

The public debate about healthcare reform may not die down anytime soon, but many Los Angeles and Southern California CEOs and CFOs and their employees are opting to take more control over their healthcare spending and decisions by establishing consumer-driven healthcare options like Health Savings Accounts. While HSAs aren't necessarily the right choice for every company and employee, they may be worth taking a closer look at given the current uncertainty with regard to healthcare reform and rising healthcare costs. It may be advantageous to consult with an outsourced CFO Services firm with professionals who are experienced in assessing plan options and structuring their creation.

About CFO Edge

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