

SOMETHING NEW IN HEALTH INSURANCE-HEALTH SAVINGS ACCOUNTS

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A fascinating and new method of paying for health insurance was included in the Medicare Bill enacted in December 2003. Actually having nothing to do with Medicare, the approval of Health Savings Accounts (HSAs) is the most radical change to the traditional health insurance market in recent memory. The rationale for these accounts is to make health insurance much more like your auto or homeowner's coverage. To illustrate, when insuring your car or home you generally accept a high deductible in exchange for lower premiums, and you'd never think of entering a claim for 50 or 100 dollars of damage. With health insurance, we have evolved a system that involves the insurance carrier in an unmanageable multitude of small health care encounters (almost every office visit, outpatient test, and increasingly drug purchases). A high deductible policy lets you self insure for the small costs, resulting in a much smaller premium. Catastrophic costs are still covered. Health Savings Accounts are the government's incentive to switch you to this high deductible coverage.

Under the new law, any individual or family must first choose a "high deductible" health insurance plan. These deductibles may range from one to two thousand dollars yearly for individuals and up to 10,000 dollars per year for families. Those who obtain these policies may then contribute pre-tax income to a Health Savings Account. Contribution limits to the HSA are the lesser of the deductible amount or of 2000 dollars per individual and 5000 dollars per family. There are no income limitations on who may open a HSA, a pleasant difference from most tax advantaged benefits such as Roth IRAs.

The Health Savings Account is like a traditional IRA, but even better. HSAs can be put in place by individuals, families, or on behalf of employees by an employer. You pay no tax on the money that you or your employer may contribute to the HSA, and you may use the accumulated money and earnings on it to pay for a wide variety of medical costs anytime in the future - without ever paying any tax. Only individuals eligible for Medicare are excluded-although money built up inside a HSA can be used for Medicare premiums, long term care insurance and other medical expenses after achieving Medicare age. The money inside the HSA can be invested much like an IRA, and can be passed tax free at death to a spouse.

There is no limit to plan accumulations, and the funds in the plan can be used to pay for medical expenses for the individual, their family or dependents. A very broad category of permitted expenses includes orthodontia, special schools for learning disabled children and many over the counter medical products. You may also choose any doctor you wish, as you

are paying the cost yourself (up to your deductible). Many high deductible insurance plans will also give you access to PPO wide discounts on medical and pharmaceutical costs, even though you are paying "out of pocket" below your deductible amount. HSA accounts can be accessed by writing checks or using a debit card.

I encourage my physician clients to actually pay most of their health expenses with after tax money in order the let the HSA grow faster on a tax free basis. Some of them have a medical reimbursement plan set up in their professional corporation that allows pre-tax reimbursement of "non-covered" medical expenses. In this case, all the cost of insurance, medical care, and the HSA contributions are all made pre-tax. The potential growth of a pre-tax money deposited at 5000 dollars per year and growing tax free for decades is impressive.

These plans are a great opportunity to save money that will grow tax free for future medical expenses. Self employed physicians will save even more as they are able to contribute pre-tax income that would otherwise be subject to the doubled Social Security and Medicare taxes they otherwise pay. Look for HSAs to become a popular choice for health care insurance in the near future. ♦

Dr. Podnos is a fee-only financial planner in Brevard County. He can be reached at www.WealthCareLLC.com.

In Memoriam of

Dr. Edward S. Bittar passed away peacefully in his home Tuesday, May 11, 2004.

Dr. Bittar spent decades in Florida dedicated to medicine, medical research and the profession of orthopedic surgery. He graduated from Temple University School of Medicine in 1978 - the same year in which he completed his Ph.D. in Oncologic Studies at New York University. Following his medical residency at the University of Florida he served as Director of Medical Education, Associate Chairman of the Department of Orthopedics and was Chief of Orthopedic Surgery of the Gainesville VA Hospital. He was involved in many professional and academic activities and was published extensively in his specialty.

He is survived by his wife Dr. Karen Ferguson; his mother, Rose and two brothers, Donald and Robert.

Dr. Bittar will be missed by his friends, colleagues and community.