

December, 2011

To My Clients and Friends:

### HEALTH SAVINGS ACCOUNTS (HSAs)

With typical medical insurance cost increasing as well as out-of-pocket medical expenses you should give serious consideration to Health Savings Accounts (HSAs). Traditional medical insurance usually has a relatively low deductible whereas HSAs are defined as high deductible health insurance plans. Many employers pay the insurance premiums for employees so that the true cost of medical insurance is not directly felt by the employee participants. Most employers are starting to either reduce medical insurance benefits or require employees to pay a portion of their increasing premium costs. In addition, most traditional medical insurance plans have been increasing co-pays as well as per person and family annual deductibles to the effect that the plans are requiring high annual out-of-pocket amounts.

HSAs allow participants to be more aware of the true cost of medical expenses with a view to be more in control of their medical costs. HSA participants have an advantage in that the tax laws allow a "tax deductible" (above-the-line) contribution into an IRA type account.

An HSA plan allows participants to open an account at a financial institution where tax deductible deposits/contributions can be made up to \$6,150 for family coverage or \$3,050 for single individuals (2011 limits). The limits for 2012 are \$6,250 for family coverage and \$3,100 for single individuals. If you are 55 or over you can contribute an additional \$1,000 for 2011 and 2012. Contributions to an HSA are completely discretionary but you should almost always contribute the maximum amount allowable. Contributions to an HSA are not allowed after the participant reaches age 65.

The Tax Relief and Health Care Act of 2006, expanded the benefits for HSAs by providing full year contributions for participants even though they are only enrolled for part of the year and allowing rollovers from FSAs and HRAs and a one-time rollover from IRAs to an HSA account.

Medical expenses can be paid from the HSA account. The HSA medical insurance then pays benefits after the (high) deductibles are reached. Most HSA plans provide a threshold (deductible) where the insurance starts paying 70% of the expense, and then after another threshold is achieved the insurance pays 100% of the expense.

If you have a year when medical costs are low, the amounts contributed into the HSA remain and are available to pay future medical expenses. Income tax rules provide that any earnings on the HSA are tax free as long as disbursements are made for qualifying medical expenses that are broadly interpreted to include the same medical expenses that qualify for the medical deduction.

Most employer benefit plans now provide an option for HSAs. HSAs are generally better than cafeteria plans where the use-it or lose-it for employee (participant) is applicable. However, an HSA plan can become part of an employer cafeteria plan.

I have prepared and enclose a schedule comparison of the annual cost for an HSA and the Traditional Co-Pay Plans that could be used for your cost analysis. The amounts used are for illustration only but do demonstrate that the HSA plan could actually result in an overall savings of medical expenses.

Most employer health insurance plans provide for open enrollment in the month of December each year for automatic changes. You should consult with your HR Department or insurance agent to determine if your plan provides for HSAs and if a change to an HSA would be of benefit to you.

I trust that this letter and schedule comparison will be useful to you in your tax and financial planning.

If you have any questions or you would like my assistance in evaluating your specific medical plan options please contact me. This letter as well as my other information letters can be located at my Web Site [www.solakco.com](http://www.solakco.com) under the tab "Resources".

Very truly yours,

*CHARLES E. SOLAK*

Enclosure, as above

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HSA AND TRADITIONAL CO-PAY MEDICAL INSURANCE PLANS  
COST COMPARISON

The following chart shows how the HSA may compare to traditional medical insurance plans for family coverage with the participant between the ages of 55 to 60:

	<u>HSA</u>	<u>TRADITIONAL CO-PAY PLANS</u>
Monthly Premiums	\$750	\$1,200
Annual Premiums	\$9,000	\$14,400
Co-Pay except prescriptions	N/A	\$35 per visit
Co-Pay prescriptions	N/A	\$25
Annual Deductible per Participant	\$5,950	\$500
Then % to Annual Maximum	70%	60%
Annual Deductible for Prescriptions	N/A	\$150
Maximum Family out-of-pocket	\$11,600	\$4,000
Tax Deductible HSA Contributions	\$6,150	N/A
Additional over 55 Contribution	\$1,000	N/A

Assume that you are self-employed and your typical medical expenses include three regular visits to your regular Doctor and three visits to a specialist for one family member per year all within the medical network and your family annual prescription costs \$1,800 per year (18 re-fills). Further, assume that each year you have an additional medical expense for medical lab and other test of \$1,000 per year.

Your annual medical expenses would be:

Medical Insurance Premiums	\$9,000	\$14,400
HSA Contributions	7,150	N/A
Medical Visits @\$100 per visit	1,200	1,200
Traditional Deductible Benefit		- 130
Prescriptions	1,800	1,800
Traditional Deductible Benefit		-1,170
Additional Medical Expense	1,000	1,000
Traditional Deductible Benefit		- 600
HSA Reimbursements	<u>-4,000</u>	<u>N/A</u>
Net Costs	\$16,150	\$16,500
Federal Tax Effect of Deductions:		
Medical insurance premiums	2,520	4,032
HSA Contributions	<u>2,002</u>	<u>0</u>
Net After Tax Cost	<u>\$11,628</u>	<u>\$12,468</u>
Plus Additional Amount Still In HSA	<u>\$3,150</u>	