

The Financial Planning Newsletter

Health Savings Accounts: Are They a Good Option for You? It's almost Fall, and this means open enrollment is coming. One option that might be new to some of you is a health savings account, or an HSA. Health savings accounts were created as part of the Medicare Modernization Act of 2003. Anyone under age 65 who buys a *qualified* high-deductible health plan (HDHP) can open an HSA. However, you can still own an HSA and be covered under other types of insurance policies that cover liability, dental, vision and long-term care needs.

Why are companies offering these plans? Because a high-deductible health plan (HDHP) option allows companies and workers to save money. Companies save money because they pay less in health insurance costs. Workers save money because they can access less expensive plans with a high deductible so that if the worker is healthy, then medical insurance costs are less for them, too.

What's the big advantage to choosing an HSA? Contributions are made to HSAs on a pretax basis where your money grows tax-deferred until after age 65, or you can spend your money at any age on a tax-free basis for medical expenses. HSA contributions could be made through your company's cafeteria plan if allowed, and can potentially save FICA/Medicare taxes on the contribution along with federal and state taxes.

Yet there are some critical things to know before you make the switch:

Understand your 2008 HSA limits: Following are the maximum contributions you can place in an HSA and the minimum and maximum out-of-pocket amounts for an HDHP insurance plan:

- Maximum HSA contribution: \$2900 for individual, \$5800 for families
- Minimum HDHP deductible: \$1100 self-only coverage, \$2200 family coverage
- Annual out-of-pocket maximum: \$5600 self-only coverage, \$11200 family coverage
- If you are 55 or older and your HDHP is in effect, you are eligible to deposit catch-up contributions, and in 2008, the additional amount is \$900.

Know the difference between an HSA and a medical flexible spending account (FSA): One important difference is HSAs allow balances to be rolled over from year-to-year, growing on a tax-free basis as long as they're used for medical expenses. On the other hand, Medical FSAs require the money you contribute each year to be spent (generally) by year-end, or you'll lose it. But in certain cases, such as when you incur medical expenses early in a year, you can be reimbursed by your FSA without having to fully fund it, so FSAs might be a bit more flexible in this regard.



Know whether you can have both: You may be able to have both an HSA and an FSA. If your FSA provides for limited reimbursement for items not covered by your health insurance plan (such as dental, vision or wellness care), you can use an HSA for items covered by your plan and your FSA for medical expenses that are not. Double-check this with your plan's expert.

Know penalties for non-medical withdrawals: You'll get hit with a 10 percent penalty, plus any withdrawals will be taxed at ordinary income tax rates. After age 65, you're free to use the funds for any purpose without penalty, but non-medical withdrawals are still taxable. This is just like a traditional IRA!

You may actually use your IRA to fund your HSA on a one-time basis: Individuals can roll over money from their IRA one-time only so you can use the money tax-free for medical expenses, but the amount of the rollover is limited to the HSA maximum contribution for the year minus any HSA contributions already made.

Preparing Your Finances for a New Baby Your parents might have mentioned at least a couple of times while you were growing up how wonderful you were. They might've also mentioned how very expensive you were. The bottom line? Bringing a child up is a tremendous financial responsibility, and it's better to plan in advance than to deal with any surprises down the line.

The U.S. Department of Agriculture's annual survey on what it costs to raise a child from birth through age 17 shows in 2007, expenses ranged from a cost of as low as \$8,000 for a two-child, husband-wife household to as much as \$16,000 annually. On an inflation adjusted basis, expect your child to cost you anywhere between \$150,000 to nearly \$300,000 over the next 17 years!

Hold on to your wallets because these numbers do not include college costs! Private colleges are costing on average around \$23,000 per year, and at public schools the in-state tuition is a relative bargain, averaging a little over \$6,000 annually. These are 2008 numbers. Add inflation at ivory tower rates of more than 6% per year and these costs will go up substantially over the next 17 years.

Review your financial plan: A financial plan should be reviewed with every major change in life, and having kids is certainly one of those landmark events.

Get rid of your high-interest debt: A major decision like having a child is a good reason to take a "clean slate" approach to debt. Building a reserve fund is easier with credit cards paid-off first.

Make sure you have a will: If you die without a will, you won't have a clear path of guardianship for your child, nor will your assets be properly directed to support your child. If adoption is part of your plan, any good adoption attorney will insist that you develop and file a will as part of the adoption process.

Check your insurance options: In today's health insurance environment, the addition of a

child to a policy can bring tremendous additional cost and sometimes without the guarantee of the best coverage. Check with your employer or your independent insurance provider to make sure you have the best coverage for what you can afford. Also look into health savings accounts if you decide to take a high-deductible policy to keep premiums low.

Know your tax advantages: If you're adopting, you can get some tax relief. In tax year 2008, parents will be entitled to a one-time tax credit of \$11,650 per eligible child. There are income limits, of course. The credit disappears for individuals with modified adjusted gross income of between \$174,730 for individuals and \$214,730 for couples.

Ask what your employer can do for you: Some companies may offer to reimburse a portion of your adoption expenses. If you're working at a family friendly company, consider applying for leaves of absence or a work schedule that makes more sense for your family situation.

Build your reserve fund: When a baby, toddler or older child comes into the house, money flies out the door at a velocity most childless people have never seen. Children always cost money and sometimes unpredictably so, but it pays to build your savings before they arrive so you won't overuse your credit cards. Also, it's possible that a birth mother's health may take a turn during the pregnancy, so that's an expense that needs to be anticipated.

Helping an Aging Parent With Finances: Like many difficult situations with people we love, helping an older relative with their finances is a discussion best done in happier times, when all sides are healthy and various options can be considered. Unfortunately, events often intervene. Illness or natural disasters can make an elder's need for assistance an immediate and critical matter.

Once stricken, older relatives may be unable to understand questions or express their wishes in proper detail. If there is no plan, family members grasp at responsibilities, or worse, shirk them. Often, we end up without any idea of what our older relative would really want.

What's critical to understand is such talks should go far beyond money. These talks need to be discussions about independence and basic preferences for the way an individual wants to live or die. Demographers believe that with the rising number of singles, divorced persons, or those people never married, these conversations will become increasingly complicated as they fall to nieces and nephews, younger friends or designated representatives.

Want to avoid a worst-case scenario? Start the conversation now. Here are some ideas we use:

Decide what's important to talk about first: Maybe this conversation isn't just about where the will or health care power of attorney is. Maybe this conversation is about you noticing your Mom or Dad is moving slower, has become more forgetful, or it is clearly looking like their health has taken a turn for the worse. Maybe that's why you want to know where the will is.

Jumping into money issues first can be a mistake. Deal with immediate health and lifestyle issues first.

Explain why you want to talk about finances: In some families, having a successful financial discussion means several attempts and some frustration. Don't let yourself become angry or frustrated. Just keep starting the conversation until it catches on. Let them know you care about them and their wishes for the future.

Prepare your questions in advance: When a parent or relative is unconscious or unresponsive, the younger relative is immediately in the drivers' seat. That's why it's critical to have a list of questions to review in detail. The basics: Where important papers are, how household expenses are paid, who the doctors and specialists are, what medicines are being taken and whether there's a will, an advanced directive and a funeral plan (and money or insurance proceeds to pay for it). There may be dozens more questions beyond these based on your family's circumstances. But in creating this list, ask yourself: "What do I need to know if this person suddenly becomes sick or dies?"

Offer to get some qualified advice: If you don't fully understand your relative's financial affairs, it might make sense for you both to talk to a financial advisor or attorney. A qualified advisor can offer specific suggestions on critical legal documents that should be in place and ways to make sure accounts to pay medical and household bills are accessible to the older person and the designated friend or relative who will hold power of attorney.

Plan a care giving strategy together: You should discuss the relative's preferences and trigger points for various stages of health care. An individual may want to stay in his or her home, but you should have an honest discussion about how much you can do at home as a caregiver and whether various services (home health aide, geriatric care manager, assisted living) should be introduced at different stages. Talking through what a parent will be able to live with as he or she ages, and putting that information in writing will save plenty of doubt and bitterness later.

Discuss what should happen with the home: If an elderly relative becomes sick and irreversibly incapacitated, the equity in the home may come under consideration as a resource to pay uncovered medical or household expenses. Since the home is both a major asset and an emotional focal point, it's best to get good advice and spell out specifically what the elderly relative wants done with his or her property and under what conditions.

Make sure everyone knows the plan: Once you settle on a strategy, make sure all family and friends understand the plan and their assignments.