FLORIDA TODAY TUESDAY, JUNE 28, 2016

What happens when insurance changes

Q: My employer recently switched our company health insurance to a high-deductible plan and told us that we now have access to an HSA. Please explain.

A: These high deductible insurance policies are paired with Health Savings Accounts (HSAs) and are funded with pre-tax dollars. You defer pre-tax money from your paycheck and fund your personal health savings account (HSA) that can be used for qualified medical expenses.

One of my favorite features of HSA-qualified health plans is the requirement that insurance companies cover preventive benefits before the deductible.

An HSA-qualified health insurance policy must have a minimum annual deductible of $1,300 for individuals or $2,600 for a family. The out-of-pocket maximum for "In-Network" expenses can't exceed $6,550 for individuals or $13,100 for a family.

The employer's motive is to give employees an incentive to take an active role in their health care. There's no excuse not to do the preventive care when it's free. Meanwhile, employees can see how health care dollars are spent.

The maximum HSA deferral allowed for 2016 is $6,750 for a family; $7,750 if over 55. Paycheck deferrals save income tax when used for qualifying medical expenses.

HSA accounts are offered by banks and other providers. Some offer investment options that can be invested for growth.

Consider not spending the money in your HSA and allowing it to grow tax-deferred. If you don't pay health care expenses from your HSA (until you are over 65), then your HSA becomes a tax haven until you decide to pull out your medical bills and take the money out. This strategy allows the funds in the tax-deferred account to grow. When you want a lump sum, pull your receipts and take the distribution.

Once enrolled in Medicare, contributions are not allowed so take the HSA distributions. Claim old receipts along with co-payments, deductibles, and LTC premiums. *(See IRS Publication 502 (2015) for a list of "qualifying" medical expenses)*

Over 55 can have a "spousal HSA" that permits a spouse to put up to $1,000 per year into a separate HSA.

Spend your HSA; upon the death of the second spouse, it is taxable income to the beneficiary and will be included in your estate.

Mary Baldwin, CFP® is an independent, fee-only financial planner at Baldwin and Associates, located in Indian Harbour Beach, FL. You can contact her at 321-428-4555 or Mary@MEBaldwin.com. Send your financial questions to Business@floridatoday.com.