Subject: FUTA Tax – Health Costs Up? Consider HSA's

Health Savings Accounts (HSA's) may be an alternative way to obtain health coverage for you and your staff without experiencing the double-digit premium increases for traditional health coverage. As of January 1, 2010, there were about 10 million people covered by HSA's which was an increase of 25% from the previous year; 2011 statistics are expected to report further increases in HSA usage.

With no end in sight on the premium hikes for traditional insurance coverage, more small business owners and self-employed individuals are using or considering the use of HSA's – and for good reason.

<u>Advantages of HSA's</u>

Health savings accounts, combined with high-deductible health plans (HDHP's) can save businesses as much as 40% compared with traditional coverage (savings depend on whether the employer or employee pays the HDHP premiums and/or makes the HSA contributions). HDHP's are low-cost insurance plans designed primarily for catastrophic coverage; the shortfall in costs is supposed to be supplemented by HSA's.

HSA's are "IRA-like accounts" that produce a triple tax benefit:

- Contributions are tax deductible.
- Earnings on contributions are tax deferred (and ultimate tax-free).
- Withdrawals to pay eligible medical costs (e.g., doctors' bills, prescription drugs, and doctor-prescribed over-the-counter medications) are tax free.

There's yet another powerful tax-savings incentive. There is no FICA or Medicare tax paid on HSA contributions made by employees when made on a pre-tax basis. In order to do this, the employer needs to set up a written salary reduction plan ("cafeteria plan") to make pre-tax contributions possible. The FICA/Medicare tax alone saves 15% of the HSA costs in tax savings.

<u>Tax rules for 2011</u>

To be eligible to make contributions to HSA's in 2011, there must be a HDHP in effect that has minimum deductibles and maximum out-of-pocket limitations for costs such as policy deductibles, co-payments, and other amounts.

- Self-only (individual coverage) plans: minimum deductible of $1,200 and out-of-pocket limit of $5,950.
- Family plans; minimum deductible of $2,400 and out-of-pocket limit of $11,900

The maximum HSA contribution for 2011 is:

- $3,050 for self-only coverage
- $6,150 for family coverage

Anyone age 55 or older by the end of the year can add another $1,000 to their HAS each year.

Perform Due Diligence

Health insurance coverages, features and costs are very complex and therefore difficult to evaluate. You should have your existing health insurance plan reviewed as to both coverages and costs, by one or more experts in health plan design. Use of HSA accounts should be considered as to how it affects both coverages and costs.

AccuPay has developed a network of local experts in employee benefits. Feel free to log onto www.hoosierhr.com to obtain contract information for our recommended metro Indy group health insurance and Section 125 "cafeteria plan" consultants.