

The Basics of Health Savings Accounts

If the White House gets its way, health savings accounts (HSAs) might finally get serious attention from employers, workers and self-employed businesspeople looking for a way to blunt the high cost of health insurance.

The Bush Administration has proposed a \$91 billion expansion of HSAs, which allow workers to save and spend money tax-free for medical needs if they buy high-deductible health insurance policies. Significantly, the Administration wants to allow additional tax breaks for individuals who set up the accounts on their own instead of through their employers. Also, the proposal would allow better portability of these accounts when an individual changes jobs or moves to a new state. The effort has drawn controversy from those who believe HSAs will only benefit wealthier taxpayers.

Regardless of the outcome of the debate, here's an overview of what HSAs are and how they presently work:

What is an HSA? Health savings accounts were created as part of the Medicare Modernization Act of 2003 but have not been wildly popular because they're complicated. 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, as long as the same expenses are not covered by both your HSA and the insurance policy.

How do I find a qualified policy? If you're employed, your employer obviously selects a qualified option and makes that available to you. However, for individuals or sole proprietors buying such policies, you need to put in some search time since HSAs haven't gotten much of a marketing push. Obviously, ask if your current insurer has a qualified plan, and there are Web sites you can search for ideas -- www.hsainsider.com and www.healthdecisions.org.

What are the minimum deductibles for qualified policies? For 2006, the minimum deductible for high-deductible health policies is \$1,050 for individual coverage and \$2,100 for family coverage. Policies must also not have an out-of-pocket maximum (including deductibles and co-pays) greater than \$5,250 (single) and \$10,500 (family).

If I find a policy, should I automatically buy it? No. Since this can be a complicated tax issue as well as an insurance issue, it makes sense to discuss this decision with your financial adviser.

How much can I contribute to an HSA? Your maximum contribution is the lesser of your insurance plan deductible or the maximum allowed by the IRS.

For 2006, the maximum annual HSA contribution for an eligible individual is \$2,700. For family coverage, the maximum annual HSA contribution for 2006 is \$5,450. Similar to IRAs, there is also a catch-up provision for individuals 55 or older -- \$700 in 2006.

What's the difference between an HSA and a medical flexible spending account (FSA)? One important difference is that 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 that the money you contribute each year must be spent 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 better option. Don't be afraid to talk to your human resources professional if you need help.

Can I have both an HSA and a FSA? It depends. 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.

What happens if I need to use my HSA dollars for any non-medical reason before age 65? 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.

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When 'Fun' Gambling Becomes Problem Gambling

As March Madness approaches, thoughts turn to college basketball...and the billions that will be won and lost - mostly lost -- betting on the NCAA Basketball Championship tournament.

There's nothing wrong with a little friendly wagering from time to time -- \$5 on the annual NCAA bracket or a \$1 Lotto ticket when the jackpot gets *really* high. But for many people, gambling takes an ugly turn when "hitting it big" becomes part of their financial mentality. An astounding one in five Americans said the most practical way to accumulate "several hundred thousand dollars" was by winning the Lottery, according to a recent survey conducted by the Financial Planning Association and the Consumer Federation of America.

Problem gambling destroys families and financial futures. What steps should be taken to protect the family if problem gambling is suspected? Here are some suggestions:

Read the signs first: All addictions trigger erratic behaviors, some more evident than others. In the case of problem gambling, if an adult or minor is suddenly scrounging for additional money, running up credit cards or using credit access checks to make ends meet, monitor their behavior. Catching the problem early is actually the best financial move.

Don't act without a plan: Dealing with a loved one's addiction needs honesty and openness, but first, it needs a strict plan with family agreement. Locate treatment and counseling options - such as Gamblers Anonymous -- and then talk to a financial adviser or an attorney before you approach the addict. Ask what the best ways are to deal with the money side of the problem based on your own financial situation and then make it part of the addict's recovery plan.

Consider the legal movement of assets: Gamblers should not be cut off from money entirely. They need to be put on an allowance for essentials with all other financial temptations put out of their reach. This should be done *only* with the help of a financial or tax adviser, but spouses or heirs should investigate taking assets out of joint tenancy and put into the sole tenancy of the non-gambling spouse or family member to protect everyone as long as the addiction remains an issue. This decision should cover everything from checking accounts to investment accounts and business assets. If it can be sold or liquidated easily, it's a target. Experts say that retirement plans are actually great cover for gamblers - at least for a while - because spouses tend to be beneficiaries or passive joint owners of the account and they can easily miss money being removed.

The non-gambling spouse should consider setting up their own accounts: Again, consult an expert, but frequently addiction leads to breakups and divorce, leaving the

non-gambling spouse a financial wreck as well. Even if you have no intention of leaving the afflicted person, it's self-preservation to plan for an independent life while you have the means to do so.

Develop a tough-love repayment strategy: So often, families with means quickly pay off gambling-related debt to eliminate the embarrassment that the gambler has caused. Such speedy bailouts are usually a mistake. Actions have consequences, and the addict must be made to reverse the damage he or she has caused. Individuals who make bad decisions tend not to learn from them if they are quickly wiped away by others.

Sign up for a credit check program: Credit reporting services can send e-mail updates whenever someone checks your credit report to approve a new loan or credit card. If your spouse opens a new line of credit to access fresh sources of gambling cash, it's a good way to find out.

Above everything else, safety trumps money: The pattern of elation and desperation addicts live with often produce verbally, emotionally or physically dangerous situations for their loved ones. Checking out financial avenues is important, but not at the cost of one's safety. Don't stay in an abusive environment simply because you fear your financial assets will be threatened.

For additional information or a copy of the handbook *Personal Financial Strategies for the Loved Ones of Problem Gamblers*, contact the National Council on Problem Gambling at 800.522.4700 or online at www.ncpgambling.org/resources/literature.

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Smart Ways to Refinance

As the candy and flowers keep trickling in for our new Fed chief, it's possible he might not return the favor. In his first Congressional testimony Feb. 15, Federal Reserve Chairman Ben Bernanke said the economy had snapped out of a yearend lull, but as a result, rising inflation – and rising interest rates – might still happen.

Of course, whether rates are headed up or down, it makes sense to know the most cost-effective ways to negotiate a refinancing deal for an existing mortgage. One important point to realize – mortgage volume is down as rates have gone up, and lenders need your business.

Dispose of as much debt as you can: Obviously, getting the best rates are based in part on the debt level you're carrying now. Try to pay off as much high-rate debt as you can before you begin the process.

Make sure your credit reports are clean: Before you start applying to refinance, make sure your credit reports are free of errors. This will take at least a month of time, so the best strategy is to plan the process ahead of time.

Start with your goals: If you plan to stay in a home for a lifetime, steer toward fixed rate loan options so you're not squeezed by rate increases.

Focus on in-house fees: By now, most conventional lenders have gotten wise to the notion that most consumers can spot extraneous fees. However, that doesn't mean you shouldn't ask. The chief culprits – application fees, document preparation and loan-processing fees. Since most of these functions are paper-handling tasks done in house, it's not like they're accruing much in the way of costs. So ask if you really need to pay for work they're not really doing.

How much does that appraiser and credit report really cost? It gets a little tough to figure up the markup on these items, but see if the appraiser will tell you what his hourly rate is when he comes by to appraise your property. As for the credit reports, those are pretty easy – see what TransUnion, Experian and Equifax charge for more than one credit report in a year. Then ask your lender where those fees are on your statement and see how closely they match.

Make rate comparisons on level ground. Say you have an offer for a 6.5 percent rate with one point and another lender has the same type of loan available for 6.5 percent and zero points. Review the numbers yourself or consult with your financial adviser. Make sure you understand the tradeoffs and at what point in time, given your personal circumstances, one loan would be preferable over the other.

What's Uncle Sam getting? It might be worth a call to the city clerk's or assessor's office to see what they charge lenders for recording, transfer or tax-related fees, and again, double-check those fees on your statement.

Check for predatory practices: As rates go higher, conventional lenders get choosier about who they'll work with. That pushes more people down the food chain of lenders who are willing to take on riskier business. Make sure the lender you're working with doesn't add prepayment penalties or erroneous fees during the process.

See if going fixed-rate makes sense: Over the past few years, many lenders have been marketing adjustable-rate loans as a way for borrowers to keep payments down and draw on home equity. However, as short-term rates have moved beyond long-term rates, lenders are attempting to get more borrowers into fixed-rate products. Again, evaluate how long you plan to stay in the property before you agree.

Keep an eye on the rate horizon: If economic growth slows, the Federal Reserve could begin lowering short-term rates in mid-to-late 2007. There are no guarantees, but borrowers with longer-term adjustable mortgages might want to sit tight based on that scenario.

Know when to pull out of a bad deal: If you find something wrong with your refinancing deal at closing, you have three business days from the date of closing to mull it over. If you decide to reject the deal, you must notify the lender in writing within the three-day period. The lender then has 20 days to return your fees.

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