Open enrollment
Make the most of your health care benefits

It’s that time of year when you’ll likely need to make an important financial decision soon — and we’re not talking about how much to put in the football pool. From now until the end of the year, millions of Americans will select their health insurance and other benefits at work. Open Enrollment season is your opportunity to evaluate your health care needs and, if necessary, make changes.

One type of health insurance plan that is getting a lot of buzz is the Health Savings Account/High-Deductible Health Plan (HSA/HDHP). In fact, a new census released by America’s Health Insurance Plans (AHIP) Center for Policy and Research found that the number of people covered by this type of health plan totaled 13.5 million in January 2012, an increase of 69 percent in just three years. If your employer offers an HSA, here are some things to consider.

A tax-wise approach to health insurance
Think of an HSA as a 401(k) for medical expenses. It enables you to set aside money from your paycheck on a pre-tax basis in a special account used for eligible health care costs.

If you haven’t participated in an HSA before, this special account offers attractive benefits, including:

- Triple-tax advantages. First, the money you contribute to your HSA will reduce your taxable income for the year, even if you don’t itemize your deductions on your tax return. Second, the funds you withdraw to pay for qualified medical expenses remain untaxed. And third, any unused money in your account can continue to grow free from taxes for your future needs.

- Unused contribution rollover. Another advantage of an HSA is that, unlike a flexible spending account, there are no “use it or lose it” rules. The money can remain in your account and earn interest until you need it, whether that’s next month, next year or in 10 years. At the age of 65, the account can be used as retirement savings or continue to be used for medical expenses; you decide.

- You can take it with you. The money in your HSA is “portable”; it is yours to keep and take with you, even if you leave your employer, change medical coverage, become unemployed, move or retire.

For those between jobs, an HSA can be used to cover medical insurance premiums and long-term care premium costs. Additionally, under current law, HSA contributions may be used to reimburse the cost of both prescription and over-the-counter drugs if they are purchased with a prescription.

Starting in 2011, under the Patient Protection and Affordable Care Act (PPACA), non-prescription over-the-counter drugs (other than insulin) will no longer be eligible for reimbursement.

In order to take advantage of an HSA, you must be enrolled in a High-Deductible Health Plan (HDHP) and must not be covered by another health care plan (such as a health plan sponsored by your spouse’s employer or Medicare), and you cannot be claimed as a dependent on another person’s tax return.

Flexible Spending Accounts (FSAs)
One health care option you may already be familiar with is the Flexible Spending Account plan, or FSA. If your employer offers an FSA, that arrangement allows you to set aside a portion of your earnings, pre-tax, in a special account to pay for qualified health care expenses (a Health Care FSA) or to cover certain work-related dependent care costs (a Dependent Care FSA).

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An FSA offers a convenient way to manage certain out-of-pocket expenses and gain real tax advantages. Your actual savings will depend on several factors. However, generally speaking, the higher your income, the greater the tax benefits.

Keep in mind, unlike HSAs, Flexible Spending Accounts are “use-it-or-lose-it” funds. The IRS requires that if you have any unused money in your account at the end of the plan year (or at the end of any applicable grace period), those funds will be forfeited — they may not be carried over from year to year.

Under current law, health care FSA contributions may be used to reimburse the cost of both prescription and over-the-counter drugs if they are purchased with a prescription. Under the PPACA, non-prescription over-the-counter drugs (other than insulin) are not eligible for reimbursement.

**Open enrollment opportunity**

Today, healthcare expenses account for approximately 18 cents of every dollar Americans spend — and those costs are expected to rise. In fact, professional services firm PriceWaterhouseCoopers estimates that the cost of healthcare services will increase 7.5 percent in 2013, more than three times the projected rates of inflation and economic growth.³

In the face of skyrocketing medical costs, participating in a health insurance plan at work can provide an effective and tax-wise way to protect your long-term financial security. When Open Enrollment begins at work, check out the buzz and make the most of any HSA or FSA plan your employer may offer.

For further information on retirement planning

We invite you to visit mybmoretirement.com or call the My BMO Retirement Line at 1-800-858-3829.

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Tips to maximize your health care benefits

Smart choices can lead to good health — for you and your finances. Here are some tips that can help you make the most of your health care benefits.

• **Be proactive about your health.** Many plans pay all or most of preventive care. Think of this as an investment in your good health. The money you spend now on checkups and tests can help you avoid serious health concerns later on.

• **Put the postal service to work for you.** More and more companies are requiring employees to shoulder a larger share of their prescription drug costs. If you rely on monthly prescriptions, check to see if your health insurance includes mail-order drugs, which are often cheaper and more convenient than picking up medication from a pharmacy.

• **Check your dependents’ coverage.** During open enrollment, consider recent life events, like marriage or the birth of a child. You may have just 30 days to change your health coverage after such an event; otherwise, you may have to wait for Open Enrollment to add a loved one to your plan.

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