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# Health Savings Accounts for the Self-Employed

When Congress passed the Medicare reform bill in late 2003, they created a new way for small businesses and individuals to obtain affordable health insurance through Health Savings Accounts (HSAs). Also referred to as Health-Care IRAs, HSAs combine a high-deductible health insurance policy with a tax-exempt savings account. They are available to individuals younger than 65.

From an investment standpoint HSAs are a winner. HSAs can be triple-tax free and, as such, they are a better deal than almost any other form of savings account. 1) HSA deposits are tax-free, 2) HSA investment earnings grow tax-free, and 3) HSA withdrawals are tax-free when used to pay qualified medical expenses.

Unlike the old "use it or lose it" rules for the medical savings accounts, any unused amounts in an HSA can stay in your account and accumulate as a nest egg for later years. Those with balances in medical savings accounts should roll them over to an HSA before year-end.

There are some very compelling reasons for self-employed individuals and independent contractors to consider HSAs:

1. Affordability. According to the National Small Business Association, high-deductible insurance policies offered with HSAs could be up to 40 percent cheaper than they would be without an HSA.

2. Tax-free. HSAs are tax-free. Individuals who have HSAs can decide what medical expenses their money will cover without worrying about taxation on their account.

3. Portability. HSAs are portable. So, if an independent contractor working for a particular company chooses to leave, instead of having to establish a health reimbursement arrangement at every new company, that contractor can take their HSA with them, completely intact.

4. Availability. Unlike their predecessors, the medical savings accounts, HSAs are available to almost anyone under a high-deductible insurance plan. The annual deductible for the insurance plan must be at least $1,000 for an individual and $2,000 for a family.

HSA deposits are subject to a cap of $2,600 for individuals and $5,150 for families; however, anyone over 55 with an HSA may make additional contributions of $500 to their account. To discourage individuals using HSAs for non-medical expenses, distributions are subject to income tax and a 10% penalty. The penalty is waived for non-medical distributions made after individuals reach age 65, or in the case of death or disability.

HSAs became effective January 1, 2004, and only a handful of companies so far are offering HSAs. The Crystal Group offers Health Savings Accounts and over 100 health plans.