

HEALTH SAVINGS ACCOUNTS FOR SELF-EMPLOYED

Rising gas prices may capture headlines, but today's soaring health care costs are an even more consistent financial threat. The National Coalition on Health Care reports that in 2006, the average family health insurance premium topped \$1,200 per month. That's more than the average family's mortgage—and health care costs are rising faster than interest rates!

Raising your health insurance deductible just a few thousand dollars can cut your premium by up to half. But that leaves you responsible for out-of-pocket costs. And even if you itemize, those are deductible only to the extent they exceed 7.5% of your adjusted gross income. Is there a way to capture premium savings from high-deductible insurance and tax savings for out-of-pocket expenses? If you're responsible for buying your own insurance, consider the new "Health Savings Accounts," or "HSAs."

HSAs let you buy high-deductible health insurance to cut monthly premiums, then establish deductible savings accounts for routine medical costs. You (and your employees, if any) can establish HSAs if you meet four tests:

- You're covered by a high deductible health plan ("HDHP") with deductibles of at least \$1,000 (singles) or \$2,000 (families) and out-of-pocket limits up to \$5,100 (singles) or \$10,200 (families). The plan can't provide any benefit, other than certain preventive care benefits, until the deductible for that year is satisfied. This means no drug card—you're not eligible if you're covered by a separate plan or rider offering prescription drug benefits before satisfying your policy deductible.)
- You're not covered by any plan that isn't an HDHP, either individually, as a spouse, or as a dependent.

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- You're not eligible for Medicare.
- You can't be claimed as a dependent on anyone else's return.

If you qualify to open an HSA, you can contribute 100% of the insurance deductible up to \$2,650 (singles) or \$5,250 (families). If you or your spouse is age 55 or older, you can make extra "catch up" contributions up to \$800 in 2007. (This amount climbs \$100 annually to \$1,000 in 2009.) If you and your spouses are covered by different HDHPs, you can contribute up to the *lower* deductible.

Withdrawals for "qualified medical costs" are tax-free. These include any deductible medical expense or nonprescription drug that isn't reimbursed by insurance. You can use your HSA to pay for qualified long-term care premiums, COBRA continuation coverage, health insurance while you receive unemployment compensation, and Medicare premiums (but not "medigap" coverage). Withdrawals for any other purpose are taxed as ordinary income plus a 10% penalty.

HSAs won't make your visit to the doctor less painful. But they may be the best kind of tax strategies because they give you new deductions for money you're already spending. Enjoy them in good health!