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What is a Health Savings Account?

A new solution to an old problem...

The HSA is a tax deferred account similar to an IRA, but specifically set aside for medical bills. Your deposits are 100 percent tax deductible and can be withdrawn by debit card (or a check) to pay medical expenses with pre-tax dollars. If you are self-employed as defined by the IRS, your monthly premiums are also 100 percent tax deductible. Your major medical costs are generally covered by a low cost, higher deductible Texas health insurance policy. Any monies left over in the HSA account each year stay in the account and grow through interest or investment returns on a tax deferred basis to add to retirement. Think of it like a medical IRA.

An HSA account is combined with a high deductible, low cost health insurance policy. The Texas health savings account is designed to replace a more traditional higher cost health insurance policy (with its co pays). A health savings plan is normally also a PPO plan which allows you to choose your own doctors and hospitals from a massive PPO directory.

Here is how an HSA works. You will reallocate the monies you currently spend on a high cost, traditional, co pay style health insurance policy and split it up like so a portion will go toward a much lower cost, higher deductible insurance policy and the remainder will be deposited into a tax deferred Health Savings Account at the bank of your choice.

The monies in your savings account will be used to help pay for smaller, covered medical bills until your deductible is satisfied. If you have a major medical expense, the high deductible health insurance policy will cover all medical expenses exceeding the deductible (if your coinsurance is 100%).

With a Texas health savings account, the benefits are plentiful. An HSA offers the following advantages:

- Greatly reduced monthly health insurance premiums
- Smaller annual rate increases
- 100% tax deductible deposits (and also the monthly premium if you happen to be self-employed)
- Long term investment growth potential. You can invest the monies in anything you like such as stocks, bonds, mutual funds or just a basic interest bearing account
- Tax free withdrawals to pay medical bills covered under your HSA policy. Also, you can use the monies in your account to pay for many medical expenses not covered by your policy (such as dental, vision, acupuncture, holistic and alternative medicines, etc.)

- Your savings can be used for tax-free withdrawals to pay the monthly premiums for long term care insurance, monthly COBRA premiums or your health insurance premiums if you become unemployed
- Freedom to choose (through a PPO) your own doctors, hospitals, etc.
- PPO negotiated discounts on medical services covered by the PPO