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New law helps with paying benefits, taxes

By Jerry Chautin

BUSINESS MENTORING

If you are like most business owners, the rising cost of health care is your No. 1 gripe. Paying too much income tax ranks up there as well. And because you plan ahead, beefing up retirement benefits may also be on your radar screen.

Even if you're self-employed, an employee or not working, William Steffen, a Bradenton-based independent health and life insurance agent, says he can offer you a fresh solution for these formidable challenges. Plus, you may even reduce your 2004 tax liability as well.

The fresh solution: A new law, signed by President Bush in December 2003, that allows for high-deductible health insurance plans to be matched with health savings accounts. And Steffen, founder of Steffen Financial Inc., is preaching its benefits with missionary zeal.

Because of the high deductible - \$1,000 minimum - the insurance premium is lower. Hence, depending on the size of the deductible, "on a (business) group plan the savings is about 15 to 20 percent. On an individual policy, (the savings is) anywhere from 30 to 80 percent," Steffen says.

Furthermore, Steffen believes the health savings account is a more flexible vehicle for increasing your retirement wealth than traditional investment retirement accounts.

"No other account gives you the tax trifecta: tax deduction going in, tax deferred growth (and the possibility of) tax-free distribution," he said, referring to three benefits you get with health savings accounts compared with only two for IRAs.

First, like IRAs, health savings account contributions are yours to keep and can be deducted from your gross income for tax purposes. But unlike IRAs, you don't need a salary to participate. And according to Kenneth Jarvis, CPA with Kenneth Jarvis, LLC in Sarasota, the tax deductions are up to \$2,600 for individuals and \$5,150 for families.

Second, they both provide for tax-deferred growth. So when you reach 65, you can make withdrawals subject to your tax rate at that time.

The third benefit is unique to health savings accounts. You can withdraw your cash tax-free at any time to cover a generous array of medical expenses, regardless of your age. "This in effect gives you a 100 percent deduction," said Jarvis. "It is a big improvement over the itemized rules."

Because of the lower insurance premiums, tax benefits and better-than-IRA retirement features,

Steffen believes that companies and individuals will embrace this new government initiative. But Jarvis adds, "they are attractive, but not a good fit for everyone."

To see if the fit is right for you, and learn about the numerous details, please go to hsainfo@do.treas.gov or call (202) 622-4HSA. (622-4472).

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