

What is a Health Savings Account?

A new solution to an old problem...

The HSA is a tax-sheltered savings account similar to the IRA, but earmarked for medical expenses. Deposits are 100% tax-deductible and can be easily withdrawn by check or debit card to pay routine medical bills with tax-free dollars. If you are self-employed, the monthly premiums are also 100% tax-deductible. Larger medical expenses are covered by a low-cost, high deductible health insurance policy. What is not used from the account each year stays in the account and continues to grow interest on a tax-favored basis to supplement retirement, just like an IRA--it's a medical IRA.

When combined with a low-cost, high deductible health insurance policy (required), the health savings account is meant to replace a traditional high-cost health insurance policy (with its low co-pays and mountains of restrictions on medical choices). A health savings plan will restore a high degree of freedom of choice by allowing you to choose your own physician (typically from an extensive PPO directory) without the extensive restrictions imposed by HMO-type plans.

Here's how it works. Take the money currently spent on a high cost traditional health plan and split it like this: Put a portion towards a low cost, higher deductible policy and deposit the balance into a tax-deductible HSA.

The savings accounts should be used to help pay smaller covered medical expenses until the deductible is met; should the need arise, the high deductible insurance policy takes care of covered medical expenses exceeding the deductible.

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