

# Golden Bullets

**Aegis Financial Partners**

**Derek M. Tuz, CFP®, ChFC®, CWS®  
Michael L. Tuz, ChFC®, CRPC®, CFS®, MBA**

## **Addresses:**

### **Boulder**

1510 28<sup>th</sup> Street, Suite 100  
Boulder, CO 80303

### **Denver**

8055 East Tufts Avenue  
Suite 1400  
Denver, CO 80237

### **Irvine**

18400 Von Karman Avenue  
Suite 400  
Irvine, CA 92612

**\*\*Please send all mail to  
Denver**

## **Telephone:**

303-793-9350

## **Fax:**

949-756-2624

## **Email:**

[Derek.Tuz@lfg.com](mailto:Derek.Tuz@lfg.com)

[Mike.Tuz@lfg.com](mailto:Mike.Tuz@lfg.com)

## **Website:**

[www.aegisfinancialpartners.com](http://www.aegisfinancialpartners.com)

## **HEALTH SAVINGS ACCOUNTS:**

### **THINGS TO CONSIDER**

Many of our clients struggle with the **high cost of health insurance coverage**, particularly those who are still working full time. Comprehensive health insurance, whether purchased individually or provided in part in connection with employment, is expensive.

Some have found that combining a **health savings account (HSA)** with a **high-deductible health plan** can be an efficient way to lower the financial strain.

Health savings accounts (HSAs) were first created by Congress in 2003 and were used by taxpayers beginning in 2004.

Like an IRA, an HSA is a tax-exempt trust or custodial account that an individual sets up with a qualified HSA trustee to pay or reimburse medical expenses incurred by the individual or a member of that person's family. A qualified HSA trustee can be a bank, an insurance company, or any entity already approved by the Internal Revenue Service (IRS) to be the trustee of an IRA.

The immediate advantages of setting up an HSA include the following:

- The taxpayer is allowed a **federal income tax deduction for contributions** that are made to the HSA, whether these contributions are made by the taxpayer or someone other than the taxpayer's employer. This deduction is allowed even if the taxpayer does not itemize.
- Contributions made by an individual's employer may be excluded from the employee's income.
- Contributions by an employee to an HSA also avoid Social Security and Medicare (FICA) taxation, as do any contributions made by an employer.

- Contributions made by either the employee or the employer remain in the HSA account until they are used by the HSA owner and grow tax deferred.
- **Distributions from an HSA may be tax free** if they are used to pay for **qualified medical expenses**.
- An HSA, used in conjunction with an employer-provided high-deductible health plan, can be taken with an employee after leaving an employer or in retirement.

**Some might even say that HSAs are superior to traditional IRAs to pay medical expenses.** One reason is that withdrawals from an HSA to pay for qualified medical expenses are always income-tax free, but withdrawals from traditional IRAs are generally subject to ordinary income tax--no matter the reason for the withdrawal.

Another advantage an HSA has over an IRA is that there is no required minimum distribution (RMD) requirement from an HSA.

Do you have a high deductible health plan? Are you a candidate to implement an HSA? Are you searching for ways to control your health insurance costs? We would be glad to answer your questions.

***AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.***

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