

DREGGORS, RIGSBY & TEAL, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Health Insurance for the Self-Employed

As a self-employed person, you need health insurance just as much as anyone. In fact, if you're a sole proprietor, your health insurance needs are probably greater than those of the average person. A lengthy illness or hospital stay could easily deplete your personal assets and endanger your business. Fortunately, it's possible to find affordable health insurance, if you know where to look.

Individual health insurance

Individual health insurance covers medical expenses on an individual basis. When you apply for individual insurance, the insurance company will determine how much risk you pose. Generally, you will be required to answer a series of medical questions and you may have to undergo a physical exam (although this is not a requirement in some states, in very limited circumstances). Your risk potential determines whether you qualify for insurance and how much your premium will be.

To apply for individual insurance, contact several insurance companies to compare coverage and cost. Keep in mind, though, that while premiums will vary from one insurer to the next, individual insurance is often expensive.

One way to make individual health insurance more affordable is to self-insure against routine medical expenses (i.e., pay them out-of-pocket) and buy high-deductible health insurance to cover only costly illnesses or emergencies. The premium cost for high-deductible health insurance is generally much lower than for a traditional health plan. Before you choose this option, however, make sure that you understand what health-care expenses and services the plan covers, and what your out-of-pocket costs are likely to be.

If your high-deductible health plan meets IRS requirements, look into opening a health savings account (HSA) that can help you save tax free funds for medical expenses not covered by the plan. HSAs may be available from banks, insurance companies, and other financial institutions.

Note: High-deductible health plans aren't available in all states. Contact your state's department of insurance for more information.

Group health insurance

If available to you, group health insurance is a more affordable option than individual insurance. With group health insurance, a single policy covers the medical expenses of many different people. Unlike individual insurance, where each person's risk potential is evaluated and used to determine insurability, the risk potential of the group is evaluated. All eligible people can be covered by a group policy regardless of age or physical condition. Because the premium for group insurance is calculated based on characteristics of the group as a whole, (e.g., average age), it's generally lower than the premium for individual insurance.

Although employers typically offer group insurance, don't automatically assume that you can't obtain group health coverage simply because you're self-employed. For instance, you may be eligible for coverage under a group health plan sponsored by your spouse's employer. In addition, some states allow insurers to offer group health plans to self-employed individuals (i.e., to groups of one). If you have employees, you may be able to obtain a group policy that will cover you and the people who work for you. Finally, you may be able to join a trade or business association that offers affordable group health insurance to its members.

Deducting health-care expenses

You can offset some of the cost of health insurance by taking advantage of tax breaks that are available to you. For instance, as a self-employed taxpayer (i.e., one who is a sole proprietor, partner, or owner of more than 2 percent of an S corporation) you may be able to deduct 100 percent of your health insurance premiums on the front of your federal Form 1040. Keep in mind, though, that the deduction may not be more than your earned income. Also, if you or your spouse were eligible for an employer-sponsored health plan for any part of the tax year, then health insurance costs you paid during that time can't be included when calculating this deduction.

Generally, if you itemize deductions on your federal income tax return you may also qualify to deduct certain medical expenses. You can deduct the unreimbursed medical expenses that exceed 7.5 percent of your adjusted gross income (AGI) in a given year. Unreimbursed medical expenses include the premiums you paid for major medical, hospital, surgical, and physician's expense insurance, assuming they weren't included in your self-employed health insurance deduction. Amounts paid out of your pocket for treatment not covered by your health insurance are also included in your unreimbursed medical expenses.