

# Health Insurance for the Self Employed

By Daniel Lamaute

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Health insurance, having enough and being able to afford it, is one of the most nagging concerns for those who leave corporate America to run their own business.

Many small businesses have dropped health coverage or reduced it in the past three years because of rising rates. About 24 million of American small-business employees and their families are uninsured, according to a study by the Kaiser Family Foundation.

The Consolidated Omnibus Budget Reconciliation Act (COBRA) is a federal law that requires employers to allow departing workers to buy health insurance through the employer's group plan. For the first 18 months after you leave your employer you may elect to continue to receive coverage in your employer's group plan at your expense.

However, the cost of the monthly premiums for COBRA can come as quite a surprise if you're accustomed to your employer picking up most of your health insurance tab via pretax paycheck deductions. COBRA coverage for a family can run \$500 a month, and upwards of \$200 a month for an individual.

Depending on which State you live in COBRA may not necessarily be the best deal for you. Shop around, you may find joining a short term insurance plan to be less expensive than continuing your current insurance under COBRA.

One piece of good news for the self-employed - Starting in 2003, the self-employed health insurance deduction is increased to 100% from the 70% that was deductible in 2002. As a result, if you work as a consultant, freelance worker, and other self-employed individual you will be allowed to deduct all of your health insurance premiums. The self-employed health insurance deduction is especially valuable because it is an above the line deduction for Adjusted Gross Income (AGI). This

means that you can take advantage of this deduction even if you do not itemize your deductions on your tax return.

Even with health insurance the portion of medical expenses that has to come out of your pocket can be more than you imagine. If you have to dip into your retirement savings for certain medical expenses, distributions from your IRA used for that purpose may be exempt from the IRS 10 percent early withdrawal penalty.

However, you still will have to pay taxes on the IRA distribution. Another alternative is to transfer your IRA to a Self-Employed 401(K) plan and take a loan from that plan. Loans from a 401(k) plan are tax-free and penalty free as long as the loans are paid back.

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Daniel Lamaute is a retirement plans specialist with Lamaute Capital. Its website [www.investsafe.com](http://www.investsafe.com) covers retirement plans and other benefits for the self-employed.

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