Sat January 10, 2004 10:42 AM ET -- By Linda Stern - WASHINGTON (Reuters) - If you like having an Individual Retirement Account, you'll love the even sweeter deal that was tucked into the Medicare prescription benefit bill that Congress passed at the end of 2003. The legislation established new tax-deductible medical savings accounts that could be the best savings vehicle yet. Healthcare Savings Accounts (HSAs) debuted on Jan. 1, so watch and wait for them to come to market. "These are going to be a huge deal. They're like a flex spending account on steroids, they're better than an IRA," enthused Richmond, Virginia, financial planner David David E. Hultstrom. "My plan will be to stuff away as much money as possible."

Anyone with a high-deductible health insurance plan and not on Medicare is eligible to open one of these accounts and contribute as much as $2,600 (single), $5,150 (family) and an additional $500 (for those over 55) this year. That contribution is fully tax deductible and if the money is withdrawn to pay for health-care costs -- including over-the-counter medicines, eyeglasses and more -- it becomes tax free forever. Furthermore, the money does not have to be spent down every year. It's a back door, tax-free way to save for retirement. Feed it to the max every year, get a tax deduction regardless of your income level, and then build up a kitty to spend down when you're paying doctor bills in dribs and drabs after you retire. No taxes, ever.

Self-employed workers who take advantage of this may get an even better break: They can set it up in their company and deduct it as a business expense, offsetting the double Social Security and Medicare taxes that self-employed workers pay, according to Hultstrom. Why wouldn't you want to do this? The catch is that you have to currently have a high-deductible medical plan to qualify. If you're one of the few whose employer still pays all costs for a low-deductible plan, that's probably a better deal. But most Americans, even those with employer-provided insurance, can opt for a high-deductible plan, save themselves some premium payments and a boatload of taxes.

If you end up pulling money out after retirement for non-health related costs, it will be subject to income tax, but that's no worse than a deductible IRA or 401(k) account. If you die with money in your account, it will pass to your beneficiaries just like an IRA. Only a smattering of insurance companies currently offer these new plans, though they are likely to come to market from banks and other financial companies by the middle of the year. All you have to do to get the tax breaks this year is open the account and feed it before Dec. 31, so you've got almost a year to get ready.

Fortis Health, a Milwaukee insurance company that was one of the first out of the block with a complete plan, has more than 1,000 applications pending in the first week of offering HSAs; and it only provides the HSAs to its health insurance clients. Most health-insurance plans, even those with high deductibles, are structured so that they might not fit the IRS's description of a qualified plan. For example, the IRS says a high-deductible plan is one that requires a deductible of $1,000 for an individual or $2,000 for a family. But a family with a $2,000 deductible, $1,000 individual deductible plan that starts paying out when any family member's covered costs exceed $1,000, would not qualify.

If that's the kind of insurance you have, it's a good time to start bugging your insurance company to see if they will modify the plan, or start looking elsewhere for insurance. In general, it's a good idea to buy high-deductible insurance if you can afford it because the monthly premiums tend to be far less than they are for low-deductible plans. You can save money by sweating the small stuff yourself. However, don't rush into the first HSA you find. Surely by the third quarter of 2004, there will be enough competition in the market so that you can carefully consider the fees, investment practices and withdrawal mechanics of the various plans out there. Then find your plan and fill it -- there's really no downside to this deal.