



# HEALTH SAVINGS ACCOUNTS

## HOW CAN AN HSA HELP YOU?

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### PG. 2 & 3

What are HSAs?

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### PG. 4 & 5

How an HSA can help with your financial wellness

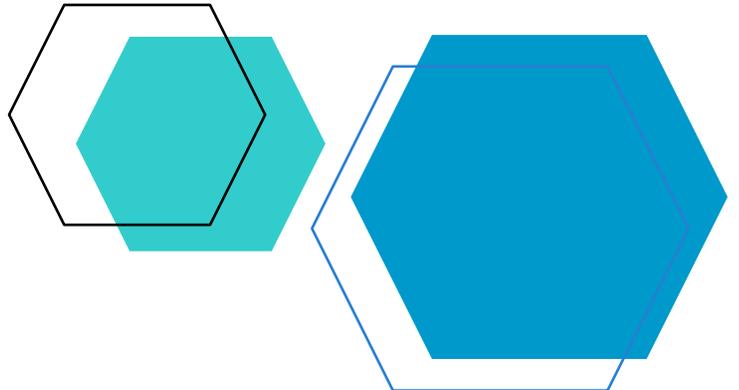
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### PG. 6 & 7

Managing and Using your HSA

### IS AN HSA RIGHT FOR YOU?

When you're choosing a health plan, there are many factors that affect your decision. If you want an option with flexibility, a high level of choice and tax-advantaged savings, a high deductible health plan with a health savings account (HSA) might be the right choice for you



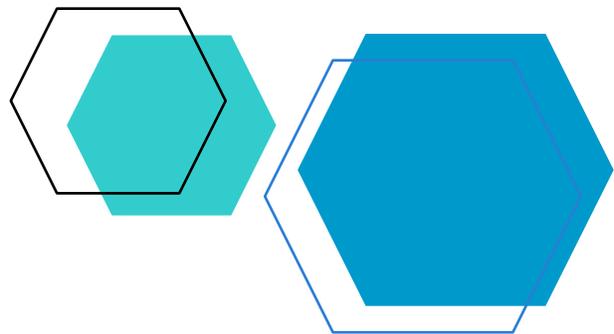
# WHAT IS AN HSA?

HSAs are tax-advantaged savings accounts that accompany high deductible health plans (HDHPs).

**HDHPs with HSAs generally have lower monthly premiums and a higher deductible. You may pay more out-of-pocket medical expenses, but you can use your HSA to cover those costs, and you pay less each month for your premium.**

HSA money can be used tax-free when paying for qualified medical expenses, helping you pay your HDHP's larger deductible. At the end of the year, you keep any unspent money in your HSA. This rolled over money can grow with tax-deferred investment earnings, and, if it is used to pay for qualified medical expenses, then the money will continue to be tax-free. Your HSA and the money in it belongs to you—not your employer or insurance company.

An HSA can be a tremendous asset as you save for and pay medical bills because it gives you tax advantages, more control over your own spending and the ability to save for future expenses.



# IS AN HSA RIGHT FOR YOU?

Comparing HSA/HDHPs to traditional health plans can be difficult, as each has pros and cons. For example, traditional health plans typically have higher monthly premiums, a smaller deductible and fixed copays. You pay less out-of-pocket costs due to the lower deductible, but you will pay more each month in premiums.

If you are generally healthy and/or have a reasonable idea of your annual health care expenses, then you could save a lot of money from the lower premiums and valuable tax-advantaged account with an HSA/HDHP plan. Even someone with a chronic condition could take advantage of an HSA/HDHP plan if he or she has a good idea of his or her annual expenses and then budgets enough money to cover cost of care.

This tool is designed to help you compare a High Deductible Health Plan (HDHP) with a Health Savings Account (HSA) to a traditional health plan <https://healthsavings.com/calculators/traditional-calculator/>





# HOW DO HSAs WORK?

To have an HSA and make contributions to the account, you must meet several basic qualifications.

**HSA Eligibility** – In order to qualify for an HSA, you must be an adult who meets the following qualifications: Have coverage under an HSA-qualified, high deductible health plan (HDHP) • Have no other health insurance plan (this exclusion does not apply to certain other types of insurance, such as dental, vision, disability or long-term care coverage) • Are not enrolled in Medicare • Cannot be claimed as a dependent on someone else's tax return

**Opening Your HSA** - You can open an account on your own through a bank or other financial institution. Banks, credit unions, insurance companies and other financial institutions are all permitted to be trustees or custodians of these accounts.

**Contributions** - Contributions to your HSA can be deducted when you file your income taxes or you make your HSA contributions on a pre-tax basis through payroll. That means that your HSA contribution will be taken out of your wages and no federal income tax or employment tax will be withheld on the contribution.

## USING YOUR HSA

You can begin using your HSA money as soon as your account is activated and contributions have been made. You can use your HSA account for any purpose, including paying expenses that are not qualified medical expenses. However, you only get the tax benefits of an HSA when you use the account for qualified medical expenses. If you use it for another purpose, you will be required to pay income tax on the withdrawal, and you may also be required to pay another 20 percent tax, unless you make the withdrawal after you reach age 65, become disabled or after your death.

You can use money in your HSA to pay for any qualified medical expense permitted under federal tax law, which includes most medical care and services, as well as dental and vision care. HSA distributions are tax-free if they are used for qualified medical expenses incurred by the account holder or his or her spouse or dependents. The qualified medical expenses must be incurred after the HSA is established.

You can use your HSA account to pay for your health plan deductible, your copay or coinsurance for doctor's office visits and prescription drugs, your share of the cost for dental care, such as exams and cleanings, and your costs for vision care, such as exams, eyeglasses and contact lenses.

You can also use your HSA to pay for medical expenses for yourself, your spouse or your dependent children, even if your dependents are not covered by your HDHP.



# INVEST IN YOUR FUTURE

THE HSA IS PROVING ITSELF TO BE A WISE INVESTMENT TOOL, NOT ONLY FOR HEALTH CARE NEEDS, BUT ALSO FOR LONG-TERM RETIREMENT PLANNING.

HSAs serve as a pre-tax and pre-FICA fund that can be used to save for the day medical expenses are actually incurred. The account is consumer-controlled. If the funds are not used, the money will continue to grow over time. One of the most attractive features of the HSA is that these funds grow through the accrual of **tax-free interest**.

The HSA fund is tax-deductible, compounds tax-free interest and is tax-free to withdraw for medical bills (in comparison to IRA distributions that are always taxable). Also, people ages 55 to 64 can make additional contributions called “catch-up payments” to their accounts to accelerate the rate of savings.

For example, if you spend \$700 a year on health care costs, anything you contribute above that is money invested for your future. Maximum allowable contributions enhance this opportunity further, particularly for those investing at a younger age.

**And since an HSA can be invested in the market just like a 401(k), with tax-free interest, the opportunity for long-term growth is exponential.**

Owners of individual retirement accounts (IRAs) or Roth IRAs who are HSA-eligible can shift IRA funds to an HSA without facing a tax penalty. The IRS allows a one-time transfer that does not exceed your maximum annual HSA contribution limit. The same types of investments permitted for IRAs are allowed for HSAs, including bank accounts, stocks, bonds, mutual funds, annuities and certificates of deposit.

At any income level, a savings account that simultaneously drives participants to save money, live a healthier lifestyle and make better health care decisions is a truly valuable resource. HSAs are wise investment tools that effectively fund health care needs now and in the future. It’s a win-win for consumers and the community.

## YOUR POTENTIAL SAVINGS AT AGE 65

| START AT | 5%        | 6%        | 7%        |
|----------|-----------|-----------|-----------|
| Age 25   | \$126,840 | \$164,408 | \$213,610 |
| Age 35   | \$69,761  | \$83,802  | \$101,073 |
| Age 45   | \$34,719  | \$38,993  | \$43,865  |
| Age 55   | \$13,207  | \$13,972  | \$14,784  |

\*Assumes \$1,000 per year balance rolling over



# 4 WAYS TO USE YOUR HSA FOR RETIREMENT

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A 65-YEAR-OLD COUPLE RETIRING IS ESTIMATED TO NEED \$280,000 TO COVER MEDICAL EXPENSES THROUGHOUT THEIR RETIREMENT. FORTUNATELY, EMPLOYEES WHO HAVE ACCESS TO AN HSA-ELIGIBLE HEALTH PLAN THROUGH THEIR EMPLOYER MAY HAVE THE OPTION OF SAVING AND INVESTING IN AN HSA.

## 1. Help bridge to Medicare

If you retired prior to age 65, you may still need health care coverage to help you bridge the gap to Medicare eligibility at 65. Generally, HSAs cannot be used to pay private health insurance premiums, but there are 2 exceptions: paying for health care coverage purchased through an employer-sponsored plan under COBRA, and paying premiums while receiving unemployment compensation. This is true at any age, but may be helpful if you lose your job or decide to stop working before turning 65.

## 2. Cover Medicare premiums

You can use your HSA to pay certain Medicare expenses, including premiums for Part B and Part D prescription-drug coverage, but not supplemental (Medigap) policy premiums. For retirees over age 65 who have employer-sponsored health coverage, an HSA can be used to pay your share of those costs as well.

## 3. Long-term care expenses

Your HSA can be used to cover part of the cost for a "tax-qualified" long-term care insurance policy. You can do this at any age, but the amount you can use increases as you get older.

## 4. Pay everyday expenses

After age 65, there is no penalty if you use HSA money for anything other than health care. But you will have to pay income tax, similar to pretax withdrawals from your 401(k).

## Summary

HSAs offer a number of benefits: not only spending for the short term, but also saving for longer-term qualified medical expenses, including those in retirement. The healthy habits outlined here can help you better understand how to take advantage of this growing health care savings opportunity.

Source: <https://www.fidelity.com/viewpoints/personal-finance/hsa-healthy-habits>



# CHOOSING A CUSTODIAN

You may choose your own financial institution to host your HSA account. Each bank will have their own fund line up. Several examples with links to their line ups are listed below:

## **Optum Bank:**

<https://www.optumbank.com/all-products/hsa/investment-services/fund-lineup.html>

## **BenefitWallet:**

[https://mybenefitwallet.com/CMS/docs/default/Investment\\_Marketing.pdf](https://mybenefitwallet.com/CMS/docs/default/Investment_Marketing.pdf)

## **HealthEquity:**

<https://www.healthequity.com/doclib/hsa/hsa-invest.pdf>

**You may find these videos on HSA investing helpful:**

<https://www.forbes.com/video/549295820001>

<https://www.optumbank.com/resources/library/investing-HSA.html>

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# CONTRIBUTING TO YOUR HSA

## ANNUAL CONTRIBUTION LIMITS

### **2019 Limits:**

Individual coverage — \$3,500

Family coverage — \$7,000

Age 55+ — additional \$1,000

### **2020 Limits**

Individual coverage — \$3,550

Family coverage — \$7,100

Age 55+ — additional \$1,000

### **Special contributions**

Build your HSA balance by transferring or rolling over funds from an IRA or another HSA.\*

One way to think about contributions to an HSA is in terms of what the tax code “pays you” to contribute. This “tax-code bonus” is simply the state and federal marginal rate that would otherwise apply to the dollars you contribute. If you make contributions through payroll deductions, add another 1.45% or 7.65% for FICA taxes—7.65% if your income is below the Social Security taxable wage base, 1.45% if it’s above.

Consider a single filer in New York with a gross income of \$100,000. After a 25% federal tax, a 7.65% FICA tax, and a 6.65% state tax, a dollar of marginal income would be worth 61 cents. If that dollar were contributed to an HSA, all 100 cents would be sheltered from taxes for long-term growth or short-term medical bills.



# WHAT QUALIFIES?

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## Doctors, Labs, and Hospitalization

- Doctor's office visits and procedures
- Drug addiction treatment
- Ambulance services
- Fertility treatment
- Health plan deductibles and copayments
- Hospital services
- Laboratory fees
- Surgery, excluding cosmetic surgery
- Vasectomy



## Prescriptions and Medical Devices

- Prescription drugs
- Over-the-counter medications prescribed by a doctor
- Artificial limbs
- Bandages
- Blood sugar test kits
- Breast pumps and lactation aids
- Crutches
- Hearing aids and batteries
- Insulin
- Stop-smoking programs and nicotine gum or patches
- Walkers
- Wheelchairs



## Alternative Care and Special Services

- Acupuncture
- Alcoholism treatment
- Chiropractor
- Drug addiction treatment
- Long-term care services (limited)
- Physical therapy
- Psychiatric care for mental health
- Special education for learning disabilities
- Speech therapy
- Weight loss programs (limited)



## Eye Doctor, Glasses, and Contacts

- Vision examinations
- Eye glasses
- Eye surgery
- Lasik/laser surgery
- Contact lenses
- Saline solution



## Dentists and Orthodontics

- Dental treatments
- Dental x-rays
- Extractions
- Teeth cleanings
- Tooth removal
- Braces
- Dentures/Artificial teeth

## Need more information?

*This is a sample list of  
Qualified Medical Expenses.*

**For a complete and up-to-date list go to:**

[irs.gov/pub/irs-pdf/p502.pdf](https://www.irs.gov/pub/irs-pdf/p502.pdf)