

# HSAs: A HEALTHY CHOICE FOR YOUR SAVINGS

## What Is a Health Savings Account?

A health savings account (HSA) is a tax-free savings account that belongs to *you*. You can use your HSA to pay for your insurance deductible and qualified out-of-pocket medical expenses. Your HSA works with your lower-premium higher-deductible medical plan to cover your major medical expenses.

## Why Should I Choose an HSA?

### An HSA Puts More Money Into Your Pocket.

With an HSA, you get to take some of the money that would have gone to pay for higher health insurance premiums and put it into your own pocket.

You can use the HSA to pay for qualified medical expenses, or you can save it and let it grow with tax-free interest from year to year.

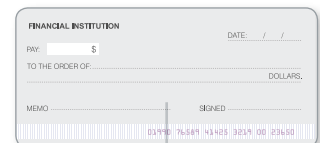
- ▶ You don't lose it if you don't spend it (like the money you put in an FSA).
- ▶ You don't have to pay taxes on withdrawals for eligible medical expenses (like a 401[k]).
- ▶ Even if you lose your qualified lower premium plan, you can still use the remaining funds in your HSA on qualified medical expenses.

The HSA, including all the money you and your employer contribute, is yours. You take the account with you when you change jobs, retire, or leave your qualified health plan.

### An HSA Gives You More Control Over How You Spend Your Health Care Dollars.

- ▶ **You Can Keep Your Own Doctor.**  
Unlike more restrictive HMOs, an HSA-qualified plan is more flexible and your doctor is probably in the network.
- ▶ **You Can Cover Expenses That Your Health Plan Might Not Include.**  
For example, if your health plan limits the number of chiropractic treatments you can have during the year, you can pay for additional treatments from your HSA.

Paycheck



Tax-Free Contributions

HSA



Pay Bills Tax-Free

Doctor's Bill



## If I'm Healthy, Is an HSA Right for Me?

More than 70% of insured people incur less than \$1,000 a year in medical expenses (including what both the patient and the health plan pay).<sup>\*</sup> HSA-qualified health plans cover preventive care services at 100% and have a fixed limit on your out-of-pocket costs (\$6,050 and \$5,950 for individuals for 2012 and 2011 and \$12,100 and \$11,900 for families for 2012 and 2011).

If you take advantage of those preventive care services and adopt healthy lifestyle habits, it's likely you won't have to spend much of your HSA. The unspent portion of your HSA can grow tax-free from year to year.

## Who Is Eligible to Have an HSA?

To be eligible to open an HSA, you must meet the following requirements:

- ▶ Be covered under an HSA-qualified health plan on the first day of any month for which eligibility is claimed (as described in *IRS Publication 969—Health Savings Accounts and Other Tax-Favored Health Plans*).
- ▶ Not be enrolled in Medicare.
- ▶ Not be claimed as a dependent on someone else's tax return.
- ▶ Have no other insurance except what's permitted by the IRS (see *IRS Publication 969*).

## Why Is an HSA Better Than Other Retirement Plans?

Think of an HSA as a Medical 401(k)—Only Better.

Here Are the Ways an HSA is Like a 401(k):

- ▶ You and your employer can make pre-tax contributions to your HSA.
- ▶ Your HSA can grow tax-free for as long as you own the account.

Here Are the Ways an HSA Is Better:

- ▶ You can keep your money liquid in an FDIC-insured bank account or, when the balance grows high enough, invest it in mutual funds. It's your choice.
- ▶ You can contribute money up to the IRS yearly limit at any time during the year—as long as you're covered by an HSA-qualified health plan and aren't on Medicare or covered by other insurance. Even family members can contribute to your account (but only you and your employer can deduct your contributions from your taxes).
- ▶ If you're no longer employed, you can still make contributions to your HSA—as long as you're still covered by your HSA-qualified health plan and aren't on Medicare or covered by other insurance.
- ▶ You don't have to be of retirement age to make tax-free withdrawals at any time without tax or penalty—as long as you use the funds for qualified medical expenses.<sup>\*\*</sup>



Withdraw HSA funds with no penalty after age 65



## How Can I Build the Balance in My HSA?

### You and/or Your Employer Can Make Pre-Tax Contributions to Your HSA Up to the Yearly IRS Limits.

- ▶ In 2011, the maximum contribution for individuals as set by the IRS is \$3,050. In 2012, the maximum for individuals is \$3,100.
- ▶ The maximum contribution limit for family coverage is \$6,150 in 2011 and \$6,250 in 2012.
- ▶ People aged 55 and over can make an additional “catch-up” contribution of \$1,000 per year.

### Any Third Party Can Make Contributions to Your HSA.

Any third party—even non-family members—can contribute to an HSA on behalf of another person who qualifies as an eligible HSA holder. However, the contributor in that case doesn't receive any tax benefits. (Only account holders and their employers can deduct any HSA contributions they make from their taxes.)

### You Can Roll Over Funds From Other Tax-Advantaged Accounts.

Transfers from other HSAs or Archer MSAs into an HSA are permitted as long as you're the owner of both accounts.

You can do a once per lifetime transfer from an IRA to your HSA. This transfer is limited to the annual HSA contribution limit set by the IRS. You must remain in your HSA-qualified health plan for the entire period following the month in which the transfer was completed in order to avoid taxes and penalties.

## Whose Medical Expenses Can I Pay for Out of My HSA?

### Spouse and Dependents

In addition to your own medical expenses, you can use your HSA to pay the medical expenses of any family member who is reported as a dependent on your tax return, even if they're not covered by your health plan. (However, their expenses won't be applied toward your health plan's deductible if they're not on your plan.)

### Domestic Partner

The law states that money in an HSA can only be used for yourself, your spouse, and your tax dependents. If your domestic partner meets the IRS qualifications to be considered a tax dependent, you can legally use your HSA funds for his/her medical expenses.

### 2011 & 2012 Individual HSA Contribution Limit



### 2011 & 2012 Family HSA Contribution Limit



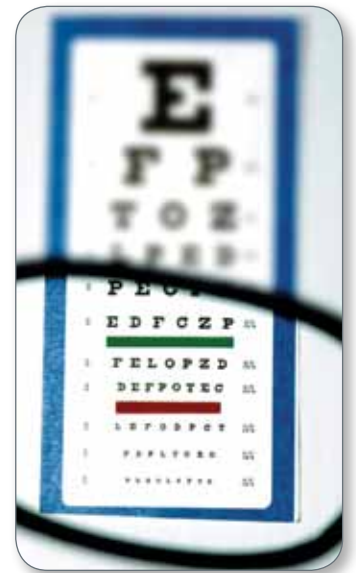
## What Kinds of Medical Expenses Will My HSA Pay For?

You can use HSA funds to pay for qualified medical expenses as defined by the IRS.

Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness. They don't include expenses that are merely beneficial to general health, such as vitamins or a vacation.

### Here Are a Few Examples of Qualified Medical Expenses\*:

- |   |  |   |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Acupuncture</li> <li>• Alcoholism (rehab, transportation for medically advised attendance at AA)</li> <li>• Ambulance</li> <li>• Annual physical examination</li> <li>• Artificial limbs/teeth</li> <li>• Birth control pills</li> <li>• Body scan</li> <li>• Breast reconstruction surgery</li> <li>• Chiropractor</li> <li>• Contact lenses</li> </ul> | <ul style="list-style-type: none"> <li>• Crutches</li> <li>• Dental treatment</li> <li>• Eyeglasses / eye surgery</li> <li>• Hearing aids</li> <li>• Home care</li> <li>• Long-term care expenses</li> <li>• Medicines (prescribed, not imported from other countries)</li> <li>• Nursing home</li> <li>• Nursing services</li> <li>• Optometrist</li> </ul> | <ul style="list-style-type: none"> <li>• Oxygen</li> <li>• Stop-smoking programs</li> <li>• Surgery</li> <li>• Telephone equipment and repair for hearing-impaired</li> <li>• Therapy</li> <li>• Transplants</li> <li>• Weight-loss program (as prescribed by a physician for a specific disease)</li> <li>• Wheelchair</li> <li>• Wig</li> </ul> |
|---|--|---|



### Here Are Some of the Expenses That Are Not Qualified by the IRS<sup>†</sup>:

- |   |   |  |
|---|---|--|
| <ul style="list-style-type: none"> <li>• Babysitting, childcare, and nursing services for a normal, healthy baby</li> <li>• Dancing lessons</li> <li>• Diaper service</li> <li>• Elective cosmetic surgery</li> <li>• Electrolysis or hair removal</li> </ul> | <ul style="list-style-type: none"> <li>• Funeral expenses</li> <li>• Future medical care</li> <li>• Hair transplant</li> <li>• Health club dues</li> <li>• Insurance premiums other than those explicitly included</li> <li>• Medicines and drugs from other countries</li> </ul> | <ul style="list-style-type: none"> <li>• Nonprescription drugs and medicines</li> <li>• Nutritional supplements, unless recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician</li> <li>• Teeth whitening</li> </ul> |
|---|---|--|



\*2006 claims data from insurers with more than 700,000 lives.

\*\*There is a 20% penalty for withdrawals other than for medical expenses before the age of 65.

†A complete list is found in the *IRS Publication 502—Medical and Dental Expenses*.