

The Ultimate Guide to

Investing Your Health Savings Account (HSA)

Discover how HSAs can be a vital piece of a comprehensive retirement strategy.



HealthSavings

ADMINISTRATORS

Investing in a Healthy Future



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What Is an HSA?

A health savings account (HSA) is a savings and investment account used for tax-free payment or reimbursement of qualified medical expenses.

It combines the immediate benefits of a flexible spending account with the retirement strategy of a 401(k) ... and offers more tax benefits than any other savings vehicle on the market.

HSA Tax Benefits

1

Contributions are TAX-FREE or TAX-DEDUCTIBLE



2

Earnings and interest grow TAX-FREE



3

Withdrawals for eligible medical expenses are TAX-FREE



More HSA Benefits

Keep Your Savings

HSA funds roll over year after year, because HSAs aren't subject to use-it-or-lose-it rules like flexible spending accounts (FSAs) are.

Take It With You

Because HSAs are individually owned, they stay with you when you change jobs or retire. And you're not required to use the HSA provider on your employer's health plan if you find another that better fits your needs.

Pay for Your Family

You can use your HSA funds to pay for your spouse or tax dependents' qualified medical expenses tax-free, even if they're on different health plans or ineligible for HSAs. Qualified medical expenses include doctor's visits, prescriptions, dental bills, and more.

Grow Your Savings

You can invest your HSA funds and let them grow long-term like a 401(k). However, you don't pay taxes on eligible medical withdrawals like you would with a 401(k).

Use Funds Even if You're Ineligible

Even if you become ineligible to contribute to your HSA, you can continue to pay for qualified medical expenses tax-free with the funds currently in your account.

No Fixed Contribution Level

You can change your contribution level as often as your employer allows, even without a qualifying event. And you don't have to maintain an equal contribution level; you can stagger contributions as your needs change.

HealthSavings BENEFITS *for* INDIVIDUALS

An HSA account is individually owned



Funds in the account can also be used to pay the eligible medical expenses of your spouse and tax dependents, even if they are not on your HDHP.

3 Simple Ways to Save

**TRIPLE
TAX SAVINGS**



CONTRIBUTIONS

Contributions are **TAX DEDUCTIBLE**



GROWTH

Earnings and interest invested in mutual funds grow **TAX-FREE**



HEALTH

Withdrawals for eligible medical expenses are **TAX-FREE**



Eligible medical expenses include medical, vision, dental and prescriptions

SMARTER INVESTING

- Your choice of mutual funds, debit card, or combination of both.
- First dollar investing — no requirement to fund, or maintain a balance in a debit card account



LOWER PREMIUMS

Savings from lower premiums can be deposited into the health savings account



The **BALANCE** rolls over year after year...



and can **continue to grow**



RETIREMENT PLAN STRATEGY

Savings invested in mutual funds can supplement other retirement plans

PORTABLE



An HSA...

- ✓ stays with you when you change jobs, change insurance, or retire
- ✓ can provide a safety net between jobs to cover COBRA insurance



HSA vs. FSA and HRA

Flexible spending accounts (FSAs) and health reimbursement accounts (HRAs) are both tax-advantaged accounts for paying medical expenses. Here's how HSAs stack up with them:

	HSA	FSA	HRA
Are contributions to the account tax-deductible?	Yes	Yes	Yes
Are qualified medical withdrawals tax-free?	Yes	Yes	Yes
Can you take the account with you when leaving a job?	Yes	No	No
Are there limits to the funds you can carry over to the following tax year?	No	Yes, requires employer approval	Yes, may be imposed by employer
Who can contribute to the account?	Anyone	Typically, you	Your employer
Does money in the account earn interest?	Yes	No	No
Can funds in the account be invested?	Yes	No	No
Does the account require being enrolled in a high deductible health plan (HDHP)?	Yes	No	No
Can you make non-qualified withdrawals?	Yes, with a penalty	No	No
Can funds be used for Medicare premiums?	Yes	No	No
Can funds be used for long-term care premiums?	Yes	No	No
Are rollovers from previous HSAs/FSAs/HRAs permitted?	Yes	No	No
What happens to the account at the accountholder's death?	Transfers to designated beneficiary or estate	Only amounts for previously incurred medical expenses may be distributed	Can ONLY be used for medical expenses of surviving spouse or tax dependents

Source: Groom Law Group

Why Invest Your HSA?

Because of their tax benefits and ability to roll over funds, HSAs are wonderful vehicles for paying medical expenses. However, many people think of them as FSAs that don't lose funds and just use HSAs to pay for current medical expenses. In fact, according to a 2017 study by Devenir, less than 20% of total HSA funds were invested.

However, only using HSAs to pay for current healthcare costs hobbles one of their most powerful benefits — their ability to be invested and grow long-term for retirement medical costs. An HSA isn't just a tax-advantaged way to pay for medical expenses; it's also an incredible retirement savings vehicle with tax benefits you won't find in any other retirement savings tool. By investing your HSA funds like a 401(k), you can take advantage of HSAs' triple tax benefit to build a nest egg for retirement medical expenses.

If you don't think you need to put money away for medical costs in retirement, you might want to think again. In the past 35 years, the inflation rate for medical care services has been double the inflation rate for all items. Also, a study by WillisTowers Watson* found that employer healthcare costs have doubled from 2001-2015, going from 5.7 to 11.5 percent of employees' pay. For many retirees, this means dollars originally destined for realizing retirement dreams are instead going to be spent on healthcare.

Studies indicate that the average couple retiring at 65 years old today will need up to \$280,000 to cover these expenses. And if you're healthy, your overall expenses will trend to the high end, because insurance premiums are a significant portion of these expenses. Also, the \$280,000 estimate does not include over-the-counter medications, dental services, or long-term care.

*<https://www.willistowerswatson.com/en-US/press/2017/07/employers-cost-to-provide-employee-benefits-has-risen-24-percent-since-2001>

Investing Your HSA

An HSA isn't just a tax-advantaged way to pay for medical expenses; it's also an incredible retirement savings vehicle with tax benefits you won't find in any other retirement

Medical care cost using a 401K

\$373,334

Medical care costs using an HSA

\$93,000 saved

\$280,000

You could save as much as \$93,000 by paying with an HSA rather than a 401(k).

HSA vs. 401(k) and IRA

Here's how HSAs compare to two other popular retirement investment strategies, a 401(k) and an IRA:

	HSA	401(k)	IRA
Do you have to pay state tax on contributions?	No, unless you live in CA or NJ	No	No
Do you have to pay federal tax on contributions?	No	No	No
Do you have to pay FICA on contributions?	No	Yes	Yes
Do contributions grow tax-free?	Yes, unless you live in CA, NH*, NJ, or TN*	Yes	Yes
Are you taxed on withdrawal for non-medical costs?	Yes	Yes	Yes
Are you taxed on withdrawal for medical costs?	No	Yes	Yes
Is there a required minimum distribution?	No	Yes	Yes

**New Hampshire and Tennessee only tax dividend and interest earnings after a certain dollar amount, depending on whether you're filing individually or married filing jointly. That dollar amount is the limit for all of that year's dividend and interest earnings, not just what came from your HSA.*

In New Hampshire, residents must only file dividend and earnings income tax returns if they collect dividend and interest income for that year totaling more than \$2,400 (if filing individually) or \$4,800 (if married filing jointly).

In Tennessee, residents must only file dividend and earnings income tax returns if they collect dividend and interest income for that year totaling more than \$1,250 (if filing individually) or \$2,500 (if married filing jointly).

HSA Investment Rules

Here's how much you can contribute to your HSA each year:



	2018	2019
SELF-ONLY COVERAGE	\$3,450	\$3,500
FAMILY COVERAGE	\$6,900	\$7,000
CATCH UP (AGE 55+)	+\$1,000*	+\$1,000*

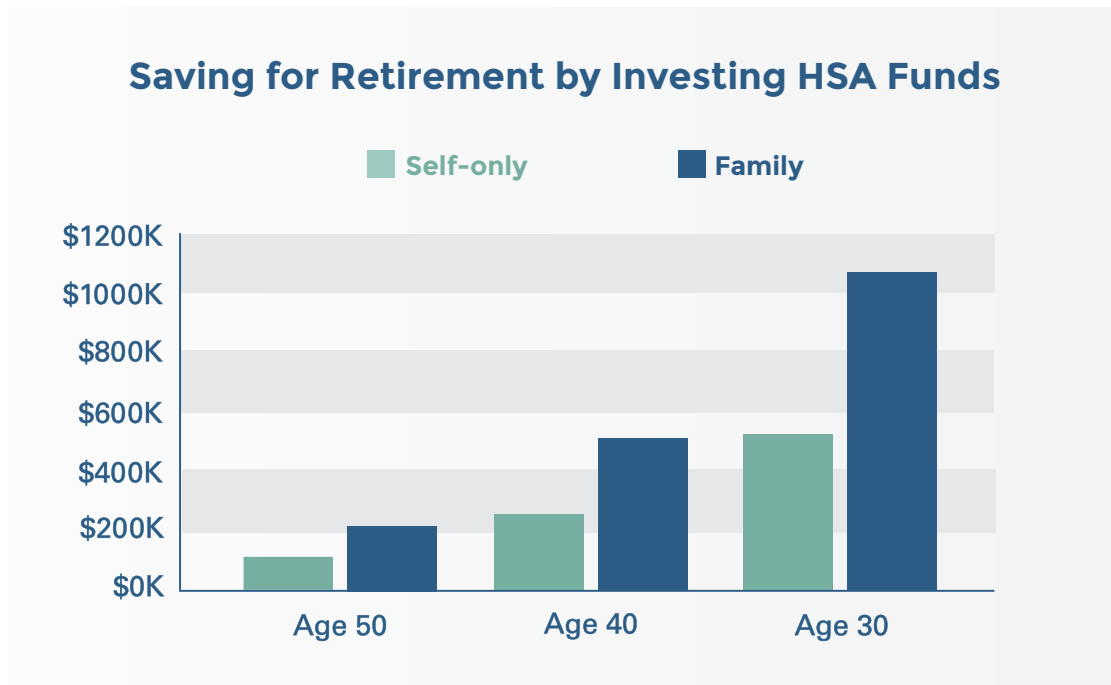
**If you are 55 or older at the end of your tax year, you can contribute an extra \$1,000 annually to your HSA.*

HSA contribution limits increase each year, so you'll be able to contribute more as time goes on.

Each year, accountholders have until that year's federal tax deadline to contribute to their HSAs. That means that you can contribute to your HSA for the 2018 tax year until April 2019.

Self-only coverage applies if you are the only one on your health coverage; Family coverage applies when you have a spouse or children on your health coverage. You can never contribute more in a year than the applicable contribution limit, even if you have multiple HSAs. And if you and your spouse both have HSAs, your combined contribution can't be higher than the Family contribution limit. Accountholders are responsible for ensuring that they do not exceed the contribution limits to avoid any tax penalties.

Let's assume that you contribute and invest the maximum into your HSA. With a conservative 6% rate of return, 25% tax rate, and 2% annual CPI increase, a 50-year-old retiring at age 65 could accumulate more than \$118,000 (under self-only health coverage) or more than \$221,000 (under family coverage). Further, a 30-year-old could accumulate more than \$523,000 (under self-only coverage) or more than \$1,069,000 (under family coverage)!*



Before you turn 65, you have to pay regular income taxes and an additional 20% penalty for using HSA funds on non-medical expenses. However, after age 65 the 20% penalty goes away, which means HSA funds used for non-medical expenses are only subject to regular income taxes. This makes non-medical HSA withdrawals identical to withdrawals from other retirement accounts like a 401(k) or IRA.

**Scenarios are hypothetical. Future rates of return can't be predicted with certainty and investments that pay higher rates of return are generally subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment. The compounded rate of return noted above does not reflect sales charges and other fees that separate account investment funds and/or investment companies may charge.*

An HSA Investing Secret: Shoeboxing

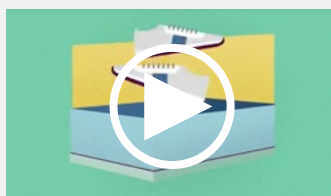
HSA funds withdrawn for non-medical expenses after age 65 are only subject to regular income taxes (no 20% penalty). Here's an easy trick that will allow you to maximize your invested HSA dollars, then use those funds tax-free for anything you want, even before you turn 65.

If you invest your HSA, you'll want to pay for medical expenses out-of-pocket to avoid dipping into those invested funds. By doing this, your HSA can grow tax-free through interest on your principal and investment earnings; over the years, this can add up to a sizable nest egg!

Also, there's no deadline for when you have to reimburse yourself for eligible expenses from your HSA. This means that if you pay for eligible medical expenses out-of-pocket rather than using HSA funds, you can reimburse yourself years or even decades down the road, once your HSA dollars have had the chance to grow.

When you pay out-of-pocket for eligible medical expenses, you'll want to archive the receipts in a shoebox or app to prove they were qualified expenses. Then, down the road, you can reimburse yourself tax-free for those expenses from your mature HSA account.

And here's the best part, you can use those reimbursed HSA dollars on anything you want. Boat, vacation, whatever you like ... it doesn't have to be medical at all. It's like pulling money out of your 401(k) and not having to pay taxes on it.



Learn more about shoeboxing
with this 2-minute video:
HealthSavings.com/Shoebox



How an HSA Works

Funds go into an individual account **TAX-DEDUCTIBLE**

Funds **ACCUMULATE** and carry over from year-to-year



PHARMACEUTICAL

1

Take your prescription to the pharmacy and present your insurance ID card.



2

The pharmacy will confirm your insurance coverage and charge you only the discounted rate.



3

Pay the provider by either:



Using your **HSA funds** (debit card or transfer investment funds to your personal account)

OR

Paying **OUT-OF-POCKET** and keep money in your HSA investments. (You must save your receipts to **REIMBURSE** yourself tax-free in the future)

MEDICAL*



1

Choose the best doctor either in-network or out-of-network.



2

Visit the hospital, lab, doctor's office or imaging area. No copay is required (before deductible – some plans require copay after deductible).

4



An Explanation of Benefits (EOB) will arrive in your mail to explain what's covered.

Present your insurance card.



5



The provider will send you a bill for the amount not covered.

*TIP: Confirm the bill matches your EOB

6

Pay the provider by either:



Using your **HSA funds** (debit card or transfer investment funds to your personal account)

OR

Paying **OUT-OF-POCKET** and keep money in your HSA investments. (You must save your receipts to **REIMBURSE** yourself tax-free in the future)



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* Refer to IRS Publication 502 for complete list of eligible expenses.

How to Save Money on Healthcare Costs

Investing your HSA funds and shoeboxing receipts is a powerful way to make your HSA dollars work harder for you. However, paying for medical expenses out-of-pocket can seem like a daunting task. Here are a few simple tips to save on healthcare costs:



Stay healthy. The less you have to go to the doctor, the more you save. It might seem obvious, but eating well, exercising regularly, and getting enough sleep make a real difference for your health and your wallet.



Tell your doctor/nurse you're on a high-deductible health plan (HDHP). To be eligible for an HSA, you must be enrolled in an HDHP, which typically has a higher deductible than traditional health insurance. Always let your doctor/nurse know what plan you're on and show them your insurance card; that will give them a better idea of how to serve you.



Remember preventative care. Certain preventative services (like check-ups, regular dental cleanings, immunizations, and more) are free under HDHPs. Take advantage of those covered services (and be sure to let your doctor know they're preventative).



Avoid the emergency room. When possible, use your primary care physician instead of a trip to the ER. An appointment with your regular doctor or urgent care center will be far less costly than an emergency room visit.



Ask for generic versions of drugs. If you see a drug advertised on TV, it's probably going to be expensive. Be sure to ask your doctor if there's a generic version of the drug that costs less. Just asking can go a long way.

True story:
A HealthSavings teammate got poison ivy treatment for \$3.50 instead of \$41 just by asking if there was a generic option available.



Check for samples. Doctors receive free drug samples from pharmaceutical companies. Check whether they have samples of the drugs you're prescribed and you could end up decreasing or eliminating your cost.



Let your provider know you'll be paying out-of-pocket, not from insurance. Once your doctor or provider understands the money is coming out of your wallet, they'll be more motivated to help you find cost-effective options. A good tip is to ask them what they would do if they were in your situation and had to pay out-of-pocket. Once they put themselves in your shoes, they may come up with cheaper alternatives.



Be your own best advocate. Stand up for yourself and don't be afraid to ask if a treatment or drug is necessary, even if you step on toes. Do your research on healthcare costs for different facilities and own your health.

True story: A *HealthSavings* teammate was scheduled for a nuclear stress test. The testing facility was overbooked and suggested a traditional stress test instead. After confirming that there were no medical reasons to have the nuclear test, he asked how much the nuclear test cost. The person he was talking to didn't know the cost, so he asked her to check. After looking, she told him the nuclear test cost \$3,000. By switching to a traditional stress test, he saved \$2,600.

Lessons learned:

- **Check costs.** You wouldn't buy a car without first seeing how much it costs. Make sure you know how much you'll be paying for medical expenses before you get the bill.
- **Know your options.** Sometimes, a generic drug or different treatment plan can have the same effect as a higher-priced alternative. Don't go with a more expensive option unless you're convinced of its benefits.
- **Be bold.** It might feel uncomfortable to push back about treatment options or ask someone to check how much a drug will cost. Don't let that stop you. It's your money, and it's your health.

Why Invest Your HSA with HealthSavings Administrators?

At HealthSavings, we believe your HSA should help you save for today and invest for tomorrow. Here's why more than 70,000 people trust us to help them create a healthier future:

HEALTHSAVINGS'
BALANCES ARE

8X HIGHER

THAN THE NATIONAL
AVERAGE.

The Investor's HSA

Our average investment balance is 8 times higher than the national average balance. We tell a different story, and we've gotten a different result.



First-Dollar Investing

No minimum balances, gimmicks, or investment transaction fees. Every dollar has the chance to grow for you.



20 Years Of Healthcare Investment Experience

We've been helping people invest their healthcare dollars since 1997, and we've been in the HSA business since they were enacted in January 2004. Also, we're proud to be the original HSA provider for Vanguard funds.



Top 15 HSA Provider

We're one of the 15 largest HSA providers nationally, and Kiplinger's and Investor's Business Daily each named us as one of the best HSA providers nationwide for our investment options.



Long-Term Trust

More than 50% of our clients use our HSA for investing, as compared to only 4% of total HSA account holders. Our customers see the value of HSAs as part of a comprehensive retirement plan, not just as a way to pay for current medical costs.

Vanguard

Full Mutual Fund Lineup

Create your own custom lineup with more than 100 investment options, including Vanguard®, Dimensional, Franklin Templeton, and more. You can even invest first-dollar in Vanguard® Admiral Class Shares.

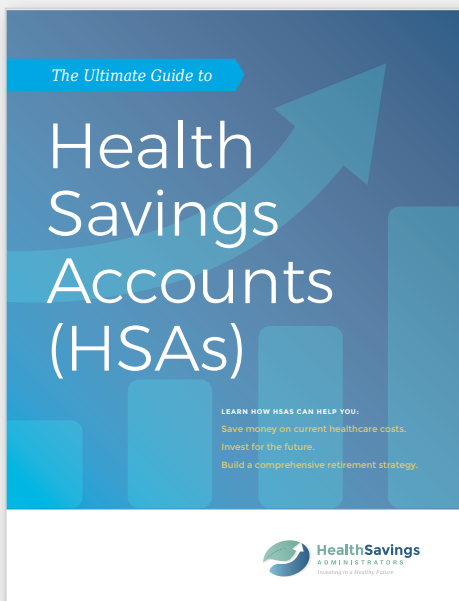


Ready to sign up for an HSA and start investing?

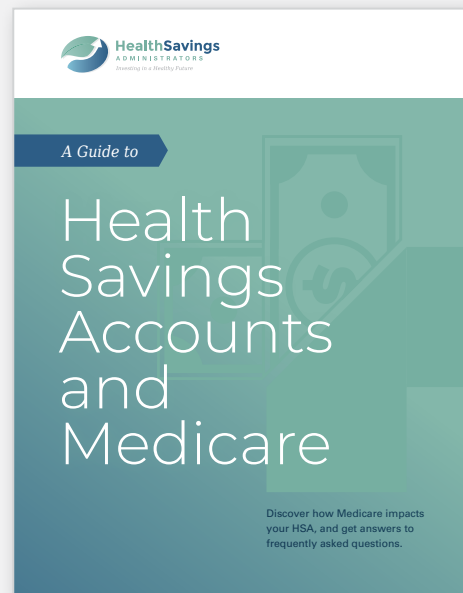
Sign up at

HealthSavings.com/Enroll

MORE RESOURCES



The Ultimate Guide to HSAs



A Guide to Health Savings Accounts and Medicare



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