

The Ultimate Guide to

Investing Your Health Savings Account (HSA)

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

Health**Savings**

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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.



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.

Health Savings Account (HSA)

BENEFITS *for* INDIVIDUALS



HSAs are **individually owned**, so they stay with you when you change jobs or retire.



Your HSA funds can pay for your **spouse and tax dependents'** eligible medical expenses tax-free.



Unused HSA funds **roll over** with no use-it-or-lose-it limits and can be invested.

ELIGIBLE MEDICAL EXPENSES



Eligible medical expenses include medical, vision, dental and prescriptions

HSA TAX SAVINGS



CONTRIBUTIONS

Contributions are **PRE-TAX** or **TAX DEDUCTIBLE**



GROWTH

Earnings and interest grow **TAX-FREE**



WITHDRAWALS

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

INVESTING YOUR HSA



A SMARTER WAY TO SAVE

HSA funds can be used to pay for eligible medical expenses in retirement tax-free.



INVESTING OPTIONS

Choose from a carefully curated lineup of low-cost, high-quality mutual funds.



NO INVESTING BARRIERS

Start investing from your first dollar with no minimum cash balances.

HSAs vs. FSAs and HRAs

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 2019 study by Devenir, only 4% of HSAs are used for investing*.

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 Willis Towers 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 \$404,000 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.

*2019 Midyear Devenir HSA Research Report

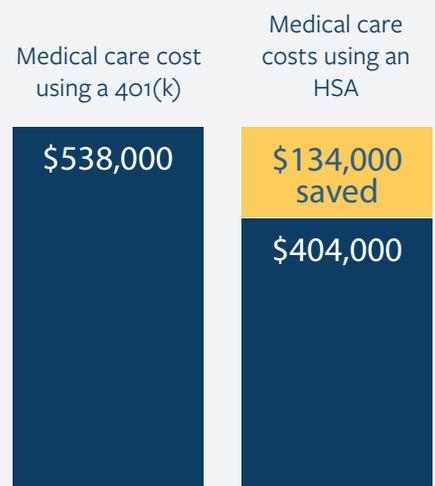
**<https://www.willistowerswatson.com/en-US/press/2017/07/employers-cost-to-provide-employee-benefits-has-risen-24-percent-since-2001>

***<http://www.hvsfinancial.com/2017/06/12/2017-retirement-health-care-costs-data-report/>

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 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.

Typically, Medicare only covers about 59% of healthcare costs, leaving retirees to cover the remaining 41% from their retirement savings. If you used 401(k) funds to pay for that \$280,000 in medical care, you'd pay a total of \$373,334 once you factor taxes in. If you're looking to invest for retirement medical expenses, you're much better off using an HSA rather than a 401(k) or IRA.



You could save as much as \$134,000 by paying with an HSA rather than a 401(k).

HSA vs. 401(k)s and IRAs

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

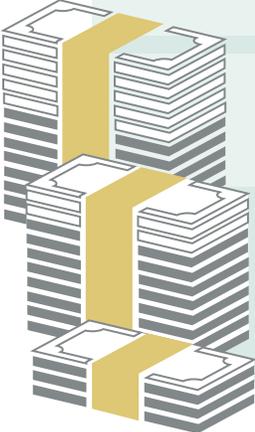
*New Hampshire and Tennessee only tax dividend and interest earnings after a certain dollar amount, depending on whether you're filing individually or married filing jointly. That dollar amount is the limit for all of that year's dividend and interest earnings, not just what came from your HSA.

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:



	2020	2021
SELF-ONLY COVERAGE	\$3,550	\$3,600
FAMILY COVERAGE	\$7,100	\$7,200
CATCH UP (AGE 55+)	+\$1,000*	+\$1,000*

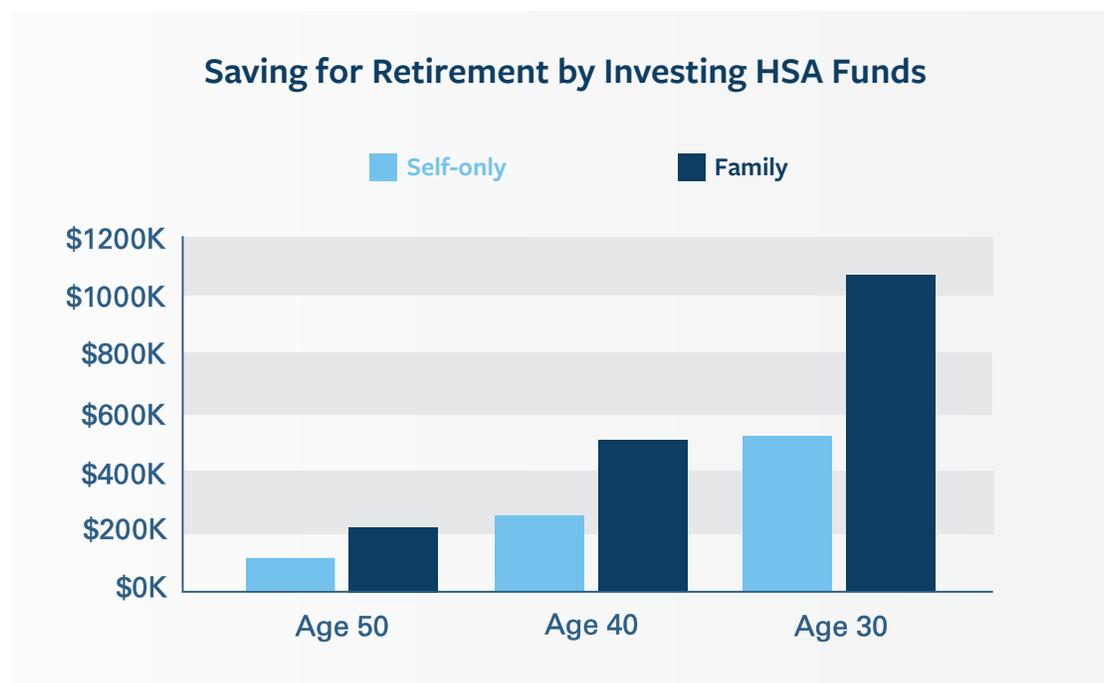
*If you are 55 or older at the end of your tax year, you can contribute an extra \$1,000 annually to your HSA.

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 2019 tax year until April 2020.

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.



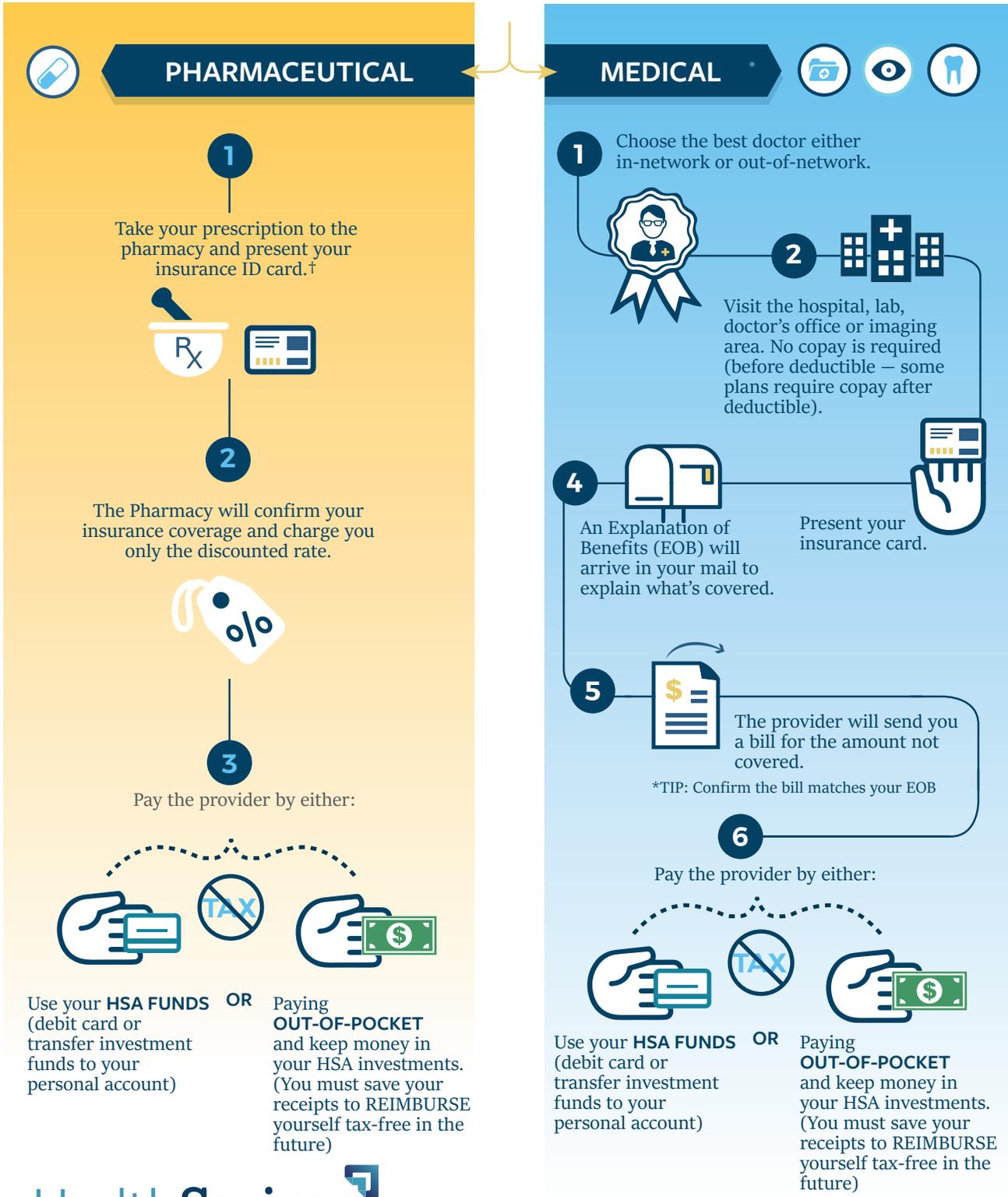
Learn more about shoeboxing
with this 2-minute video:
HealthSavings.com/Shoebox



How an HSA Works

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

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



* Refer to IRS Publication 502 for complete list of eligible expenses. 10

How to Save 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 makes a real difference for your health and your wallet.



Tell your doctor/nurse you're on an HSAQP. To be eligible for an HSA, you must be enrolled in an HSA-qualified health plan (HSAQP). When you're seeing a doctor/nurse, always make sure to let them know what health plan you're on and show them your insurance card. That will give them a better idea of how to serve you.



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



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.



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.

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.



Let your provider know you'll be paying out-of-pocket, not from insurance. Don't be afraid to negotiate with your medical providers. If you're paying with cash, you can sometimes negotiate a discount, since you're saving your provider from having to go through insurance. Another good tip is to ask your providers 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 be able to find you better prices for your medical services.



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 from different facilities and own your health (see the next page for price-finding resources).

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 (which cost \$400), 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.

Ready to sign up for an HSA and start investing?

Sign up at

HealthSavings.com/Enroll

Have any questions?

Give us a call at (888) 354-0697
or email us at support@healthsavings.com.

We'd love to hear from you!



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