HEALTH SAVINGS ACCOUNTS

What's Inside

PNCE Health and Welfare Trust

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 qualified high deductible health plan (HDHP) with a Health Savings Account (HSA) might be the right choice for you.

What is an HSA?

A Health Savings Account is a great way to save pre-tax money to pay for eligible medical expenses. There are certain advantages to putting money into an account, including investment earnings, favorable tax treatment, and the ability to save for future expenses. The rationale behind the HSA/HDHP combination is that people will have a clearer idea of their medical costs and more control over their spending, enabling them to reduce their medical costs.

HSA money can be used tax-free when paying for qualified medical expenses, helping you pay your HDHP's larger deductible for example. 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 belong to you—not your employer or insurance company.

Click here to watch this video and learn more on how HSA's work.

What are the Advantages of Having an HSA?

There are numerous advantages to having an HSA. Not only is this an account that you own, but it provides security, affordability, flexibility, a way to save, and portability.

Security

Your HSA can provide a savings buffer for unexpected or high medical bills.

Savings

You can save the money in your HSA for future medical expenses, all while your account grows through tax-deferred investment earnings.

Flexibility

You can use your HSA to pay for current medical expenses, including your deductible and expenses that your insurance may not cover, or you can save your funds for future medical expenses, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance

Also, you do not have to use your HSA to pay for medical expenses. You can withdraw money from your HSA at any time and for any reason. However, if your HSA money is not used for medical expenses, you will have to pay income tax on your withdrawal. You will also have to pay a 20% additional tax, unless the withdrawal is made after you attain age 65, become disabled or after your death.

Affordability

In most cases, you pay less out of your paycheck for your medical premiums when you switch to coverage with a higher deductible, and these HDHPs can be paired with an HSA.

Control

You make the decisions regarding:

- How much money you will put in the account
- Whether to save the account for future expenses or pay current medical expenses
- Which expenses to pay for from the account
- How to invest the money in the account

Tax Savings

An HSA provides you with triple tax savings:

- Tax deductions when you contribute to your account
- Tax-free earnings through investment
- Tax-free withdrawals for qualified medical expenses

Portability

Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state

Ownership

The HSA is yours. Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs, making it a great way to save money for future medical expenses.

Am I Eligible?

In order to qualify for an HSA, you must meet 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
- ✓ HSAs must be used with an HDHP. To qualify as an HDHP, a health plan must satisfy the IRS requirements for the minimum annual deductible and the maximum out-of-pocket expenses.

Is an HSA Right for You?

HSAs are a growing trend in health care and offer many advantages, but whether it's the right choice for you depends on several factors.

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.

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.

The decision is different for each individual. 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. For example, 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 the cost of care.

However, if you are older, more prone to illness or unexpected medical conditions, or prefer certainty in medical costs over the possible risk of unexpected out-of-pocket expenses, you may want to stick with a traditional plan. You'll pay more in monthly premiums, but you will have a lower deductible and fixed copays.

What are Considered Qualified Medical Expenses?

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 their spouse or dependents. The qualified medical expenses must be incurred after the HSA is established.

Qualified medical expenses are defined in Section 213(d) of the federal tax code. Section 213(d) defines "medical care" to include amounts paid "for the diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body."

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 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. Any amounts used for purposes other than to pay for qualified medical expenses are taxable as income and subject to an additional 20% penalty.

5 Things You Can't Use Your HSA to Pay For

Your monthly insurance premium

You can pay deductibles and copayments, but not your monthly health insurance premiums.

Your future medical care

You can only use the funds that are already in your account.

Gym memberships

Nutritional supplements

Daily vitamins, herbal supplements, and natural medicines do not qualify.

Teeth whitening
(and other cosmetic procedures)

You cannot use your pre-tax funds to pay for other procedures that improve your appearance.

How Do I Determine How Much to Contribute?

Contributions to your HSA can be made by anyone, including you, your employer or a family member; the combined contributions of you and your employer (and anyone else making contributions to your HSA) can not exceed the HSA maximum contribution limit. The IRS changes these limits every year. For current contribution maximums, visit https://www.irs.gov/pub/irs-pdf/p969.pdf.

Contributions to the account must stop once you are enrolled in Medicare or no longer enrolled in a qualified high deductible health plan. However, you can still use your HSA funds to pay for medical expenses tax-free.

It's up to you how much you want to contribute. Think about any future health expenses you may have, like a surgery or a baby, or even if you're getting closer to retirement and want to make sure you have a lot of money saved. You can change your contribution amount throughout the year; it's not a one-time decision you have to make for the entire plan year.

How Can My Savings Grow Over Time?

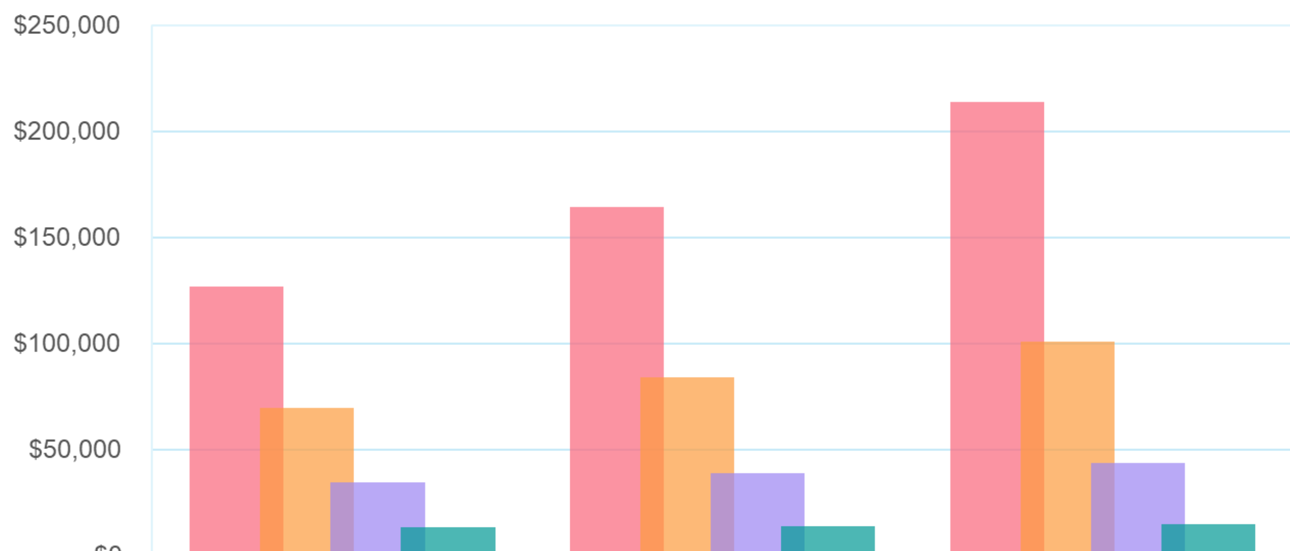
You've learned that your money rolls over year to year. One of the most attractive features of the HSA is that these funds grow through the accrual of tax-free interest or investment earnings.

The HSA is proving itself to be a wise investment tool, not only for current health care needs, but also for long-term retirement planning. The HSA fund is tax-deductible, compounds tax-free interest and earnings and is tax-free to withdraw from for medical bills. Also, people who are age 55 and older 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 healthcare 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.

Because an HSA can be invested in the market with tax-free earnings, 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.

You can build your HSA balance by consistently making contributions and investing what you roll over to the next year. If you start at a young age, you can amass considerable savings. Let's look at this example of how your money can grow depending on how old you are when you start contributing.

Your Potential Savings at Age 65



	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.