TRI-STAR TRUST BANK

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TIPS FROM YOUR Financial Coach

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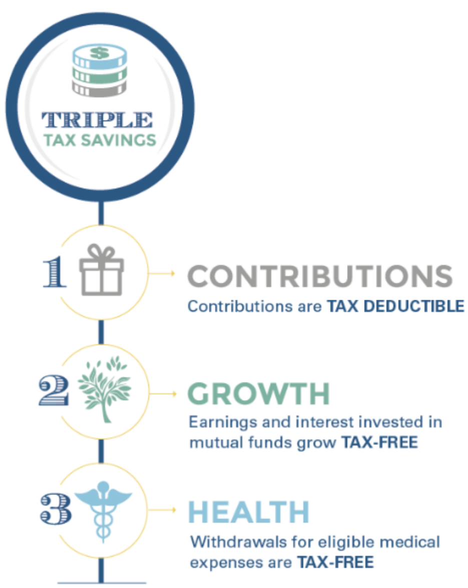
What Is a Health Savings Account?

Health Savings Accounts (HSAs) were signed into law at the end of 2003. By now almost everyone has heard of them, but might not fully understand how they work and what benefits they may offer. A Health Savings Account is a tax-advantaged account, similar to a 401(k), except that they are only available to those individuals with high-deductible healthcare plans (HDHP) and are designed to be used to specifically pay for medical expenses.

HSAs are unique in offering taxpayers three distinct layers of tax savings. Contributions into HSAs are deductible from income. The amount of immediate tax savings is calculated by multiplying your contribution by your marginal tax bracket. The funds held within the HSA are sheltered from all capital gains and investment earnings. Additionally, withdrawals used to pay for qualified medical expenses can be taken completely tax-free. There is no other account available to taxpayers that offers such generous tax benefits. However, as with everything in life, there are pros and cons associated with Health Savings Accounts.

The Good News:

- HSAs offer triple tax-advantages.



- HDHP premiums tend to be lower than other health insurance plan premiums.
- The deductibility of your contribution is not phased out due to income.
- Contribution limits are $3,350 for Individuals and $6,750 for a Family, and are not dependent upon other retirement plan rules. You can save into your HSA even if you save into your 401(k) or IRA.
- Additional $1,000 contributions are allowed if between ages 55-64.
- Balances carry over from year to year with no ‘use it or lose it’ drawback.
- You may use your HSA to pay the medical expenses of your spouse and children even if they are not covered by your HDHP.
- After age 65, you may withdraw funds for non-qualified medical expenses without incurring the 20% penalty.
- You are allowed a one-time tax-free rollover from your IRA to your HSA.

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The Bad News:

- To be eligible to open an HSA, you must have a health insurance plan with a high deductible. For single individuals, your deductible must be at least $1,300 and $2,600 for a family plan.
- If you withdraw funds from your HSA for non-medical expenses before age 65, you will pay income taxes and a 20% penalty on those withdrawn funds.
- HSAs cannot be used to pay health insurance premiums. However, it may be used to pay Medicare, Cobra and long-term care insurance premiums.
- Over the counter medications and medical supplies are not considered qualified expenses.
- Many HSAs offer only cash or money market investment options.
- You may not make contributions into HSAs after age 65.

Should an HSA be a part of your health and retirement plan?

Decades ago retirement meant working until you were physically and mentally unable to work any longer. Today's reality is that retirement is deliberately planned for and intended to span twenty years or more. One of the most substantial, unpredictable, and unavoidable expenses during this highly anticipated stage of life will be healthcare costs.

Early and adequate healthcare planning should be a priority for everyone, and a Health Savings Account offers individuals the ability to shelter dollars from taxes, which in turn will maximize the resources available to pay for future medical costs. Moreover, after age 65 the funds in an HSA can be withdrawn penalty-free for any reason. Income taxes will only be due if the funds are not used for qualified medical expenses. Essentially, at age 65 your HSA is treated like an IRA in regards to taxes on non-qualified withdrawals.

The single most determinant factor on whether enrolling in an HDHP and opening an HSA is appropriate for you is your health condition. If you are relatively healthy and do not typically meet or exceed your insurance deductible each year, the HSA/HDHP strategy could be an economical option. Ideally, you would save the dollars realized from a lower insurance premium into an HSA up to the individual and family contribution maximums. You will be paying co-pays, deductibles and other out-of-pocket medical expenses tax-free.

Your ability to contribute dollars into the HSA is also an important consideration. The benefits of having an HDHP begin to diminish if there is not also the capacity to save and accumulate money into the account.

Opening a Health Savings Account is not the best solution for many individuals because having a high-deductible healthcare plan is not a practical option for everyone. However, those that are healthy with discretionary income and who are in a high tax bracket stand to benefit the most from the tax advantages available through an HSA.

Please reach out to your Tri-Star advisor, if you have any questions regarding Health Savings Accounts or any other retirement or financial planning topic.

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