Now in its 10TH EDITION

The complete

HSA GUIDEBOOK

Winning with a health savings account

Stephen D. Neeleman, MD

THE COMPLETE HSA GUIDEBOOK

How to Make Health Savings Accounts Work for You

TENTH EDITION

Includes health care reform and tax change updates

Stephen D. Neeleman, M.D.

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FOREWORD

We began writing the first edition of The Complete HSA Guidebook a few months after the original HSA law became effective on Jan. 1, 2004. It is remarkable to see the change in people's understanding and acceptance of HSAs over the past twelve years. HSAs are becoming a common offering for employers and health plans. Millions of Americans are now using HSAs as an important part of their long-term savings plan.

HealthEquity was founded in 2002 with a simple mission: "We will save health care by helping people better save and spend their health care dollars." We remain committed to fulfilling our mission of helping people use their HSAs to become healthier and wealthier. As this edition goes to print, HealthEquity members have saved over 4 billion dollars in their HSAs. National HSA balances are estimated to soon surpass over 30 billion dollars. The money saved in their HSAs cannot only be spent tax-free throughout the course of their lives for their health care needs, but at age 65, they can also withdraw their money for non-health care needs with the same tax treatment as their 401(k).

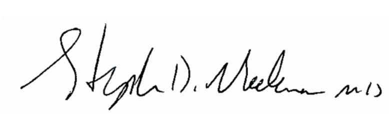
During the past 12 years, HealthEquity has grown from a simple idea to one of the largest HSA custodians in the United States. We currently provide HSAs for tens of thousands of employers and millions of consumers. Nearly every day, one of our employers or members asks us if health reform has hurt HSAs. The reality is that provisions within health reform such as guaranteed issue, the "Cadillac Tax," and exchanges have led millions of Americans and their employers to turn to HSA-qualified health plans as the solution to continue to offer valuable insurance and help people avoid taxes today and to save money for the future. Thankfully, HSAs appear to be here to stay, and they will continue to help people better save and spend their health care dollars.

Now that the number of Americans with HSAs is reaching critical mass, there are many new companies that offer solutions for wellness, price transparency and telemedicine with the intent to help people make better choices and save money on their health care. HealthEquity now partners with many of these companies to offer our members timely, personal, and relevant information and services to help them with their health care needs.

Our initial goal with The Complete HSA Guidebook was to create a book about HSAs that was both comprehensive and easy to understand. I believe we accomplished that goal, as many of our readers have commented on the important role The Complete HSA Guidebook has played in helping them better understand HSAs. This edition has been updated to include the most recent regulations from HHS and clarifications from the IRS that affect the HSA law.

I am very appreciative of Sophie Korczyk and Hazel Witte for their work on the first editions. Their legacy is a thoughtful approach to helping our readers understand the complicated tax and insurance laws that affect HSAs. Sadly, Sophie passed away in Nov. 2009.

We remain committed to helping people improve their health and their financial well-being through better understanding and adoption of HSAs. We hope this guidebook remains a powerful tool to accomplish that end.



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May 2016

This book is intended only as a general explanation of HSAs. It should not be treated as legal reference or in any way considered the provision of legal, financial or tax advice.

HealthEquity, Inc. is a publicly traded (NASD:HQY) non-bank custodian of health savings accounts. Some of the opinions expressed are unique to the way HealthEquity operates and may not be typical. Readers experience may vary.

In this edition, we have added citations to legal sources. We have cited Internal Revenue Code (26 USC) as of Feb. 2016. We tried to eliminate errors but make no guarantee that the citations are accurate, complete or up-to-date. We shall not be providing corrections or updates to the purchaser or reader. We are not responsible for typographical errors.

As used in this book, “tax-free” refers to federal income tax. HSAs are never taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states recognize HSA funds as tax-free with very few exceptions. Please consult a tax advisor regarding your state’s specific rules.

The readers should always consult their own legal, tax and financial advisors.

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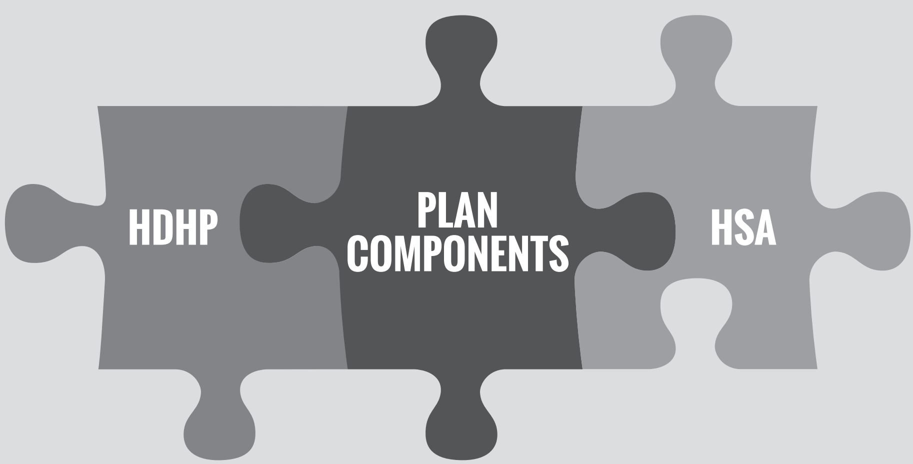
CHAPTER 1

How an HSA Can Benefit You

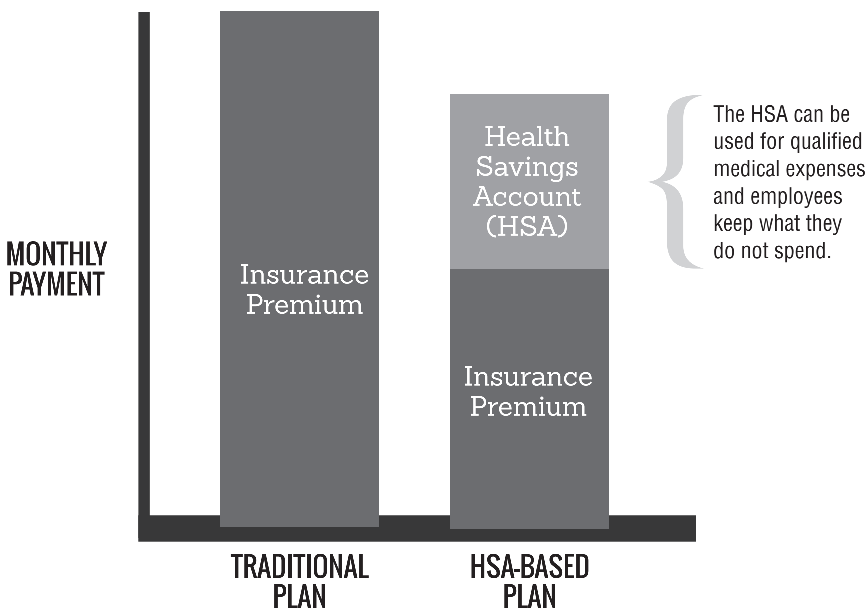
What is an HSA?

An HSA is a tax-advantaged savings account that belongs to you. It is always paired with a qualified high-deductible health plan (HDHP).



Traditional health plans, like PPOs and HMOs, are typically "use it or lose it". At the end of the year, all of the money you have spent on premiums is gone.

Unlike a traditional health plan, a health savings account (HSA)-qualified high-deductible health plan (HDHP), has a lower premium, and some of the money you would have otherwise spent on premiums can go into your HSA instead. Additionally, you save money on taxes and are given more flexibility and control over your health care dollars.



An HSA is administered by a bank, insurance company, or approved third-party custodian or trustee. In most cases, the cash balance is FDIC-insured. Be sure to read the literature from the custodian or trustee to see whether FDIC applies to your deposit. Many HSA administrators provide online banking services similar to those of a personal bank account.

You and your employer can make tax-free deposits into your HSA, as long as you are enrolled in a qualified HDHP and you are not also enrolled in other health care coverage that will disqualify you. The HDHP protects you from major medical costs, such as catastrophic illness, prolonged hospitalization and excessive medical bills.

The HSA can be used to cover:

- Your insurance deductible
- Qualified health care expenses that insurance plans might exclude
- Co-payments and coinsurance until you reach your health plan's out-of-pocket maximum (the HDHP covers the rest)

Know your limits

It is important to know how much you can contribute to your HSA to avoid excess contributions which are taxed.

2016 and 2017 limits: (Rev. Proc. 2015-30 and 2016-30)

2016	Single	Family
Minimum annual deductible	$1,300	$2,600
Contribution limits	$3,350	$6,750
Out-of-pocket maximum	$6,550	$13,100
2017	**Single**	**Family**
Minimum annual deductible	$1,300	$2,600
Contribution limits	$3,400	$6,750
Out-of-pocket maximum	$6,550	$13,100

The money is yours

All of the money in the HSA (including any contributions deposited by your employer) remains yours even if you leave your job, leave your qualifying health plan or retire.

In other words, an HSA is not a "use-it-or-lose-it" type of account (IRC Sec. 223(d)(1)(E)). For this reason, many people use the HSA as an additional savings and investment account for retirement.

You can grow your account through saving and investing

You decide how to use the HSA money, including whether to save it or spend it for health care expenses.

As your balance rolls over from year to year, it earns interest. When your balance is large enough, depending on your custodian, you may be able to invest it—tax-free—the same way you can invest dollars from other retirement accounts. Check with your custodian as to whether they offer investment vehicles, and what the minimum requirements are.

You realize free savings

An HSA provides triple-tax savings because:

- Contributions to the HSA are tax-free for you—whether they come from you, your employer, or as gifts from friends or relatives (IRC Sec. 223(a). IRS Notice 2004-2 Q&A 11)
- Unlike a 401(k), the money you and your employer contribute to your HSA through payroll is also not subject to social security (FICA) and Medicare taxes (IRC sec. 106(d)(1), IRS Notice 2004-2 Q&A 19)
- Your account and investment earnings grow tax-free (IRS Notice 2004-2 Q&A 20)
- You can withdraw your money tax-free at any time, as long as you use it for qualified medical expenses (IRC Sec. 223(f)(1))

You have more choice and flexibility in how you pay for health care

An HSA-qualified HDHP gives you greater choice and flexibility when managing your health care options.

Pay for qualified medical expenses

You can use the HSA to pay for qualified medical expenses for yourself, your spouse and your dependents before the HDHP deductible is met, as well as for other health care expenses allowed under Section 213(d) of the Internal Revenue Code (IRC). These are generally the same health care expenses individual tax-payers can deduct on their federal income tax returns. The qualified medical expenses are broader than what most health plans cover (IRC Sec. 223(d)(2)(A). IRS Notice 2004-2 Q&A 26. See Appendix C and IRS Publication 502).

Cover work/life transitions

You can use the HSA to bridge events such as unemployment, job changes and periods of disability by paying for health insurance premiums or health care directly (IRC Sec. 223(d)(2)(c)(iii), IRS Notice 2004-2 Q&A 27). Your HSA can be used to pay Consolidated Omnibus Budget Reconciliation Act (COBRA) premiums (for continued health care coverage through your former employer) (IRC Sec. 223(d)(2)(C)(i), IRS notice 2004-2 Q&A 27), or premiums for long-term care (IRC Sec. 223(d)(2)(C)(ii), IRS Notice 2004-2 Q&A 27).

Cover gaps in care

You can use tax-free HSA dollars for co-payments and deductibles, as well as for services that are not offered by your health plan. You may also pay for services from a physician out of your network with your HSA.

Pay for post-retirement health care expenses

HSAs help you save for retirement health expenses tax-free. You can use your HSA to pay for Medicare premiums and out-of-pocket expenses including deductibles, co-pays and coinsurance (except Medigap) (IRC Sec. 223(d)(2)(C)(iv); IRS Notice 2004-2 Q&A 27), including:

- Part A (hospital and inpatient services)
- Part B (physician and outpatient services)
- Part C (Medicare Advantage plans)
- Part D (prescription drugs)