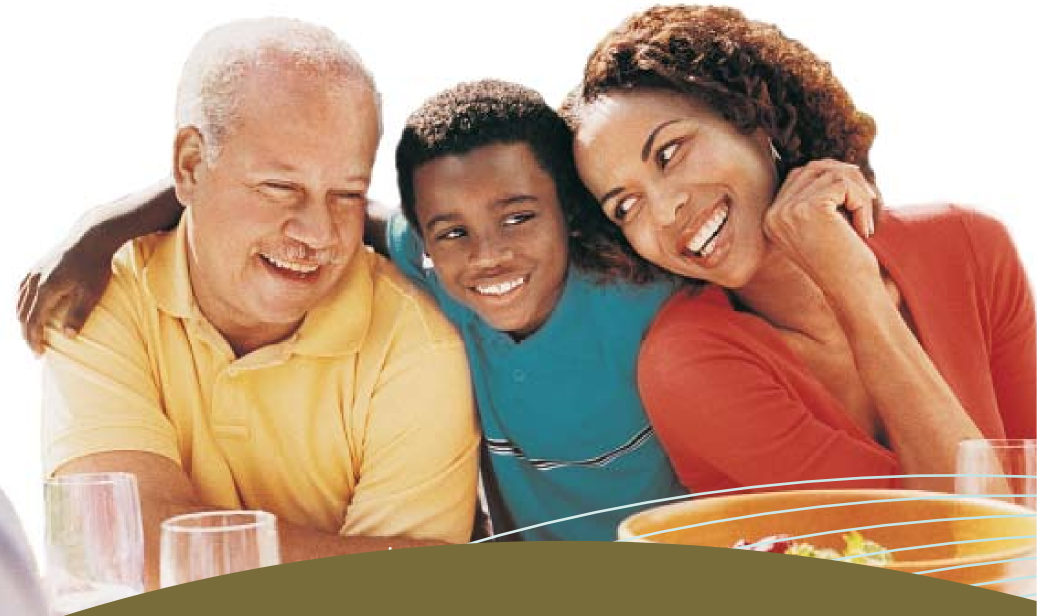
# 10 Things You Should Know

## About your health savings account (HSA)



## 1 It offers the best tax advantages available

Money deposited into your HSA can earn interest and is not taxable as long as the funds are used for qualified medical expenses and premiums for certain insurance coverages, such as long-term care, Medicare and COBRA medical while unemployed. You won't have to pay federal income taxes for all contributions or Social Security and Medicare payroll taxes for contributions made via payroll deduction. The only possible exception is that the funds could be subject to state taxes in some parts of the country.

## 2 It's real money that's always yours

It is up to you to determine how much money you wish to contribute to the HSA account (up to the maximum set by the Internal Revenue Service) and how those dollars are saved or spent. Your employer has no say regarding the availability or usage of the dollars in your fund. It's also a much better investment than a standard savings account because the dollars can be invested in mutual funds much like a 401(k) account, where the long range return on investment is usually much greater.

Any money in your HSA will always be yours even if you leave the company that initially offered you the HSA. An HSA can be used in addition to an individual retirement account (IRA) but unlike an IRA, you don't have to wait until you retire to spend the funds. An HSA also contains enhanced features over a flexible spending account (FSA) because there is no "use it or lose it" rule or claim forms to submit. You can carry dollars over from year-to-year.

## 3 Use your debit card if you wish at the pharmacy

To purchase a prescription, first present your medical card to the pharmacist. Your pharmacy benefits manager will discount the drug and may pay a portion of the claim. Your pharmacist will ask you to pay the remaining balance, which you may pay using your HSA debit card or checkbook if you have elected to receive checks from your financial institution.

## 4 Don't use your debit card for initial payment at the hospital or physician's office

Instead, wait for your claim to be submitted so all appropriate discounts can be applied. Once your claim is processed, and you receive your explanation of benefits (EOB) and a bill from the provider, you can then make your payment at the discounted rate. To do so, you may wish to record your HSA debit card number on the provider's bill, or your HSA checkbook if you have elected to receive checks from your financial institution.

## 5 Consider saving your HSA dollars for retirement medical expenses

If you can afford to do so, you might want to treat your HSA like a 401(k) or IRA. That approach would allow you to contribute annually to your HSA up to the maximum amount set by the Internal Revenue Service. You may then accumulate substantially more money for medical expenses after you retire and make you much less reliant on Social Security and other programs.

## 6 Spend your HSA dollars on qualified medical expenses

By doing so, you will never have to worry about paying penalties or having your HSA funds taxed. It's also a good idea to save all your receipts in case you are audited. You can use your HSA to pay for qualified medical expenses, as defined by the IRS, that are incurred by you, your spouse and dependents. Generally, qualified medical expenses are any amounts spent on medical care, such as doctor visits, prescription and over-the-counter drugs, vision and dental care, and other services. Visit your UMR member Web site for a detailed list of eligible/ineligible expenses.

## 7 Think twice about spending your HSA dollars on non-medical expenses

Any HSA money spent for non-medical purchases will require you to pay taxes on that amount. Unless you are over the age of 65 years, you will also need to pay an additional 10 percent penalty on your non-medical expenses. Still, it is nice to have the HSA dollars available in the event of a financial emergency.

## 8 Don't forget the importance of a qualified high deductible health plan

A qualified high deductible health plan (HDHP) does not pay any medical expenses (other than preventive care), including co-pays, office visits or coinsurance until the deductible is satisfied. You are only allowed to contribute to your HSA when enrolled in a qualified HDHP. So if you should ever leave your current employer, you will need to enroll in another qualified high-deductible health plan to continue contributing to your HSA. You may always spend your HSA dollars – regardless of whether you are enrolled in a qualified HDHP.

## 9 Keep in mind special considerations if you decide to enroll in a flexible spending account (FSA) along with a HSA/high deductible health plan

A HSA/HDHP may only be paired with a special limited purpose FSA and not a traditional FSA. When you have a HSA/HDHP, FSA dollars cannot be used to reimburse medical and prescription expenses you pay toward your deductible. But you can use your FSA to cover other expenses, such as vision and dental. It is important that you keep this in mind when you determine your limited purpose FSA contribution.

## 10 Carefully consider all of your medical purchasing decisions

By making smart decisions about all of your medical purchases, you will be able to more effectively manage your HSA, allowing you to save more money for future medical expenses. UMR offers you a variety of Web tools and other resources to help you become a better consumer of health care. Visit our Web site at umr.com for more information.