KeyBank

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Health Savings Accounts (HSA)[1] can be powerful financial tools

In recent years, as people continually seek ways to make healthcare more affordable, health savings accounts (HSAs) have emerged as a popular tool for saving money and building wealth. At the most basic level, HSAs are special purpose accounts used in conjunction with a high-deductible health plan (HDHP). They enable people to pay for current qualified health expenses[2] and save for future qualified medical expenses, including retiree health expenses on a tax-free basis.[3] But the true advantages of an HSA lie in some of its lesser-known benefits.

Retirement healthcare savings

Healthcare costs are on the rise, without much relief in the foreseeable future. For younger workers, this is particularly important. They may not have many health-related expenses currently, but as they grow older, these expenses can accumulate quickly. HSAs can help cover the costs of future healthcare needs — expected and unexpected — by allowing for pre-tax contributions that can be withdrawn tax free for qualifying expenses.

Major tax advantages[2]

Contributions are tax free, either pre-tax if using payroll deductions or tax deductible if making direct payments to your account. Any interest or earnings from your account grow tax deferred. And withdrawals for qualified medical expenses are tax free. This is what's called the "triple tax advantage." It's what distinguishes HSAs from other retirement accounts, which are taxed either when deposits are made or when funds are withdrawn or distributed.

Complete control

Finally, your HSA is yours. You keep the account if you leave your employer, relocate, or become unemployed. You choose how you use the funds, which can empower you to have greater choice and control of how you choose to meet future healthcare needs.

Overlooked investment value

Many people are not aware they can invest the balance in their HSA account. This is extremely valuable if you are healthy and want to leverage the long-term growth HSAs can potentially offer. Some HSAs, including Key Investment Services, offer select retirement options when balances reach a certain threshold. Remember, earnings grow tax deferred, and if you ultimately withdraw the money for medical expenses, there is no tax penalty. Withdrawals can be applied to Medicare premiums or even long-term care expenses, including insurance. Once you're 65, you can withdraw the funds for nonmedical expenses without penalty, but such withdrawals will be taxed as ordinary income.

Growing balance

There is no "use it or lose it" component of HSAs. What you do not use at the end of one year rolls over to the following year. If you want to contribute more with the idea of converting your savings to investment, not only is that acceptable, it can be a great way to complement traditional 401(k) contributions and provide added security.[3]

Two easy ways to open your Health Savings Account

Scan the code or visit key.com/key-work/

In Branch

To find the branch nearest to you, visit key.com/branch or call 1-800-KEY2YOU (1-800- 539-2968). Dial 711 for TTY/TRS. Clients using a relay service: 1-866-821-9126

See important disclosures on page five.

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Health Savings Account (HSA) FAQs

What is a Health Savings Account (HSA)?

An HSA is an individual, tax-advantaged savings account designed to help you pay for qualified medical expenses. Eligible contributions are tax deductible, and you can use your money to pay for those expenses for you, your spouse, and any qualified dependents. You can choose to invest your HSA money to pay for medical expenses in retirement, and that growth is also tax free. HSA contributions can roll over year after year, and contributions do not expire.

Does the high-deductible health plan (HDHP) policy have to be in my name to open an HSA?

No, the policy does not have to be in your name. If you have coverage under the HDHP policy, you can be eligible for an HSA (assuming you meet the other eligibility requirements for contributing to an HSA). You can still be eligible for an HSA even if the policy is in your spouse's name.

My spouse has a Flexible Spending Account (FSA) or a health reimbursement account (HRA) through their employer. Can I have an HSA?

You cannot have an HSA if your spouse's FSA or HRA can pay for any of your medical expenses before your HDHP deductible is met.

Can I start an HSA for my child?

No, you cannot establish separate accounts for your dependent children, including children who can legally be claimed as a dependent on your tax return.

Do my HSA contributions have to be made in equal amounts each month?

No, you can contribute in a lump sum or in any frequency you wish.

Do my contributions provide any tax benefits?

Your personal contributions offer you an "above-the-line" deduction. An above-the-line deduction allows you to reduce your taxable income by the amount you contribute to your HSA. You do not have to itemize your deductions to benefit. Contributions can also be made to your HSA by others (e.g., relatives). However, if you make pre-tax contributions, you will not be able to take the above-the-line deduction.

Can I make contributions through pre-tax payroll?

You can make contributions to your HSA on a pre-tax basis through payroll deduction (i.e., before income taxes and FICA taxes). Note that you cannot also take the above-the line deduction on your personal income taxes.

I'm over 55 and would like to make catch-up contributions to my HSA, like I've done with my IRA. Is that possible?

Yes, individuals 55 and older who are covered by an HDHP can make additional catch-up contributions each year until they enroll in Medicare. The additional HSA catch-up contributions allowed are $1,000 annually.

Do unused funds in a health savings account roll over year after year?

Yes, the unused balance in a health savings account automatically rolls over year after year. You won't lose your money if you don't spend it within the year.

I turned 55 this year. Can I make the full catch-up contribution?

If you had HDHP coverage for the full year, you could make the full catch-up contribution regardless of when your 55th birthday falls during the year. If you did not have HDHP coverage for the full year, you must prorate your catch-up contribution for the number of full months you were eligible (i.e., had HDHP coverage).

How do I know what is included as qualified medical expenses?

Unfortunately, we cannot provide a definitive list of qualified medical expenses. A partial list is provided in IRS Pub 502 (available at irs.gov/pub/irs-pdf/p502.pdf). A determination of whether an expense is for medical care is based on all the relevant facts and circumstances. To be an expense for medical care, the expense must be primarily for the prevention or alleviation of a physical or mental defect or illness.

What happens if I don't use the money in the HSA for medical expenses?

If the money is used for anything other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 20% tax penalty.

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Can I use the money in my HSA to pay for medical care for a family member?

Yes, you may withdraw funds to pay for the qualified medical expenses of yourself, your spouse, or a dependent without tax penalty. This is one of the great advantages of HSAs.

Can I still use the money that is already in the HSA for medical expenses tax free?

Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax free, even if you no longer have HDHP coverage. However, you are no longer eligible to contribute to an HSA for months that you are not an eligible individual because you are not covered by an HDHP. Contribution maximums depend on when you either lost or newly gained HDHP coverage. Please check IRS Publication 969 for more information (available at irs.gov/pub/irs-pdf/p969.pdf).

What happens to the money in an HSA after I turn 65?

You can continue to use your tax-free account for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. The one expense you cannot use your account for is to purchase a Medicare supplemental insurance or “Medigap” policy. Once you turn 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 20% penalty on the amount withdrawn.

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Health savings account qualified medical expenses[1]

For your funds to remain tax free, you have to spend them according to the IRS tax code. This means you should only use HSA funds for qualified medical expenses. Medical expenses that are deductible and/or eligible for tax-free withdrawals from a health savings account include the following:

- Abortion
- Acupuncture
- Alcoholism treatment
- Ambulance
- Anesthetist
- Bandages
- Birth control pills (by prescription)
- Blood tests
- Blood transfusions
- Braces
- Cardiographs
- Chiropractor
- Contact lenses
- Dental treatment
- Dental X-rays
- Dentures
- Dermatologist
- Diagnostic fees
- Diathermy
- Drug addiction therapy
- Drugs (prescription)
- Elastic hosiery (prescription)
- Eyeglasses
- Fees paid to health institute prescribed by a doctor
- Guide dog
- Gum treatment
- Gynecologist
- Hearing aids and batteries
- Hospital bills
- Hydrotherapy
- Insulin treatments
- Lab tests
- Lead paint removal
- Lodging (away from home for outpatient care)
- Menstrual care products
- Neurologist
- Nursing services
- Obstetrician
- Ophthalmologist
- Optician
- Optometrist
- Oral surgery
- Organ transplant (including donor's expenses)
- Orthopedist
- Osteopath
- Over-the-counter drugs, medicines, and other medical products
- Oxygen and oxygen equipment
- Pediatrician
- Physician
- Physiotherapist
- Podiatrist
- Postnatal treatments
- Pregnancy test kit
- Prenatal care
- Prescription medicines
- Prosthesis
- Psychiatrist
- Psychologist
- Psychotherapy
- Registered nurse
- Special school costs for the handicapped
- Speech therapy
- Telehealth and remote care services
- Telephone or TV equipment to assist the hard-of-hearing
- Therapy equipment
- Transportation expenses (relative to healthcare)
- Vaccines
- Vitamins (if prescribed)
- Wheelchair
- Wigs (hair)

Nondeductible expenses (not eligible for tax-free HSA withdrawals)

- Athletic club membership
- Bottled water
- Commuting expenses of a disabled person
- Cosmetic surgery and procedures
- Diaper service
- Domestic help
- Exercise equipment
- Funeral, cremation, or burial expenses
- Hair loss medication/hair transplants
- Health programs offered by resort hotels, health clubs, and gyms
- Illegal operations and treatments
- Illegally procured drugs
- Maternity clothes
- Scientology counseling
- Social activities
- Special foods or beverages
- Swimming pool
- Teeth whitening
- Veterinary fees
- Vitamins and nutritional supplements
- Weight loss programs

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Investing using your HSA[4]

Invest dollars today and build funds that can help you manage eligible healthcare expenses in the future.

Two simple options to get started today, regardless of your experience level in investing:

Self-managed investing (unsolicited trades)	Managed with advisor support (advisor-led trades)
This option allows you a simple, easy-to-use way to manage investments in your account, following your own strategy. **What you'll need:** Must keep $2,500 in HSA checking account and have a minimum of $1,000 to start investing.	Our seasoned professionals at Key Investment Services® assist you with forming a portfolio strategy and executing trades based on your goals. **What you'll need:** Must keep $6,000 in HSA checking account and have a minimum of $1,000 to start investing.

Both options allow for tracking, updates, and online trading through your online banking portal.
It's all part of a seamless experience that empowers you as an investor.

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1 The IRS determines eligibility for Heath Savings Accounts. Please see IRS Publication 969 for the rules regarding eligibility for HSAs and consult your tax adviser with any questions.
2 See IRS Publication 502 for a detailed list of qualified medical expenses.
3 Consult a tax advisor regarding tax benefits.
4 Brokerage and certain investment advisory services are offered through Key Investment Services LLC [HYPERLINK to https://www.key.com/wealth/our-approach/kis-disclosures.html] (KIS), member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KeyCorp Insurance Agency USA Inc. (KIA) and underwritten by third party insurance carriers not affiliated with KIS. KIS and KIA are affiliates under the common control of KeyCorp. To learn more about KIS's investment business, as well as our relationship with you, please review our KIS Disclosure page. Check the background of KIS on FINRA's Broker Check.

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