Town&Country Bank

Be Smart with your Money with Health Savings Accounts

A Smart option for saving health care dollars

Presented by

Town&Country Bank

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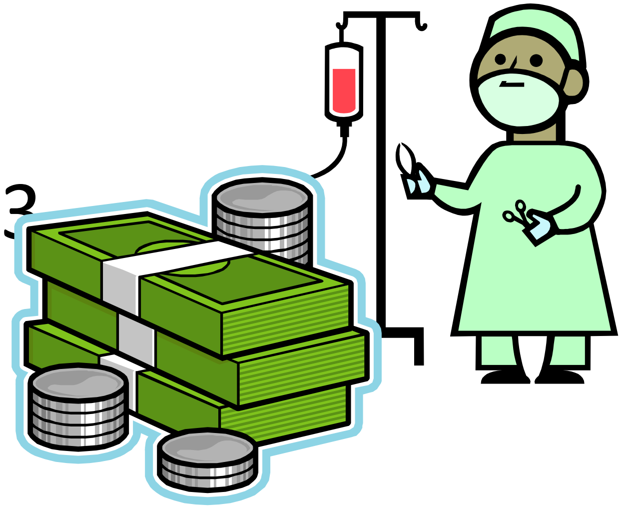
What is it?

- Savings account to allow people to save money to cover medical expenses
- Qualified contributions are tax free
- Qualified distributions are tax free
- Interest earnings are tax free
- Authorized by Congress in 2003



How do you qualify?

- Must be covered by a *High deductible Health Plan* – for 2018 this is defined as:
  - *Self only coverage:*
    - *$1,350 minimum deductible*
    - *$6,650 maximum out-of-pocket expenses*
  - *Family Coverage*
    - *$2,700 minimum deductible*
    - *$13,300 maximum out-of-pocket expenses*

Can have no other 'first dollar' coverage, and not enrolled in Medicare or claimed as dependent on someone else's tax return

How is this different from a flex plan?

- Must have high deductible coverage
- Undistributed balances simply accumulate – like an IRA
- No more ‘use it or lose it’
- The account belongs to the owner. It goes with them if they change employment
- Balances earn interest

Qualified contributions

- Contributions from either:
  - Yourself
  - Your employer
  - Anyone else on your behalf
- You may initially fund with a one-time tax-free distribution from an IRA
- May roll over funds from FSA or HRA (such as from cafeteria plans)

Contribution limits

- For 2018, limits are:
  - $3,450 for self-only coverage
  - $6,900 for family coverage
- An additional $1,000 may be contributed for those 55 and older (a catch-up contribution)
- Contributions are federal and state income tax free

What are Qualified Distributions?

- From the IRS website:

  “Unfortunately, we cannot provide a definitive list of “qualified medical expenses”. …. [the question is] what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. …whether an expense is for "medical care" is based on all the relevant facts and circumstances. To [qualify], the expense has to be <u>primarily</u> for the prevention or alleviation of a physical or mental defect or illness… “

What are Qualified Distributions?

- For medical expenses for
  - Yourself
  - Your spouse
  - Your dependents
- Incurred after your HSA account was established
- Generally – any medical expenses that are allowed on the Schedule A, including medical, dental, prescription meds, eye glasses; plus non-prescription meds
- NOT health insurance premiums, except:
  - Long-term care insurance, COBRA premiums, A few other circumstances
- See IRS Publications 502 and 969 for more information

Qualified distributions are

** Tax Free **

Recordkeeping Responsibilities

- It is your responsibility to keep track of your deposits and expenditures and keep all of your receipts, explanation of benefits forms, etc.
- IRS may want to see your receipts in an audit
- Failure to produce evidence of expenditures may result in taxes and penalties for non-qualified distributions

Non-qualified distributions

- Are taxed on your annual federal and state tax returns
- Plus an additional 10% penalty
  - UNLESS you are 65 years of age or older

Two ways to use your account:

- Pay directly from HSA account for qualified expenditures with check or debit card

- Pay out of checking account and reimburse yourself from HSA

Smart HSA tips
When paying directly from HSA:

- Keep copies of receipts to document qualified expenditures
- Keep copies of HSA account statements so that you can match disbursements to receipts
- Keep in mind - The trustee (Bank) is not allowed to overdraw an HSA account – transactions which would inadvertently overdraw the account must be returned.
  - At risk – the tax exemption of all deposits to the account – could be scary

Smart HSA tips
When paying directly and reimbursing yourself from HSA

- Keep copies of receipts to document qualified expenditures.
- Reimburse yourself from the HSA for specific expenditures, recording on receipt when you reimbursed yourself.
- Keep copies of HSA account statements so that you can match disbursements to receipts.

Smart HSA tips from Town & Country Bank

- Before year-end, check for unreimbursed receipts. Fund HSA up to the amount of unreimbursed receipts <u>or</u> maximum contribution amount and immediately reimburse yourself = additional tax savings.
- If you need additional tax deductions, consider contributing up to your limit to remain in account for future use (in addition to or instead of IRA). After age 65 – funds can still be used for qualified expenditures tax-free (unlike IRA's).

Use as a Retirement account?

- After age 65, non-qualified distributions are taxed just like IRA distributions.
- Distributions for qualified medical expenses are still <u>tax free</u> – unlike IRAs.
- High income individuals who are contributing maximum amounts in various retirement accounts can add to their pre-tax savings with HSA's.

Thank You!

Town&Country Bank

Our passion is to provide <u>smart</u> financial solutions.
We are committed to your success!

www.tcbank.bank