HEALTH SAVINGS ACCOUNT

INVESTING

GUIDE

Combine HSA tax advantages
with investment opportunities.

New Direction
TRUST COMPANY

Health Savings Account

Why Have an HSA?

Short term benefit – Save 10-40% on every medical expense. Because HSA contributions are "pre-tax" and qualified distributions are tax-free, on any medical bill, you automatically save an amount equal to the percentage of your income tax rate. You never pay taxes on the money you spend for medical expenses when you use your HSA (as long as the medical expenses are qualified).

Long term benefit – Your HSA can be invested to earn even more tax-free money for your medical expenses. Because HSAs stay open year after year, with no "use-it-or-lose-it" restriction, the money that has been contributed, but not yet distributed, can be invested, and all those earnings become part of your HSA and can be distributed tax free at any time for qualified medical expenses.

An HSA = an FSA, or an HRA

With an FSA, your contributions must be distributed for medical expenses within a short time (usually not more than a year), not in an HSA. Once an HSA is opened, the money and investments in it stays there until you take it out: 5 years, 10 years, 20 years, and more. You decide when to take distributions.

With an HRA, your employer decides if you can take a distribution, and any money that is in that account stays with the employer. You never have control of those funds.

Tax Benefits of an HSA

Contributions are "pre-tax," meaning you get a deduction on your taxes (similar to a Traditional IRA).

Once the HSA has money contributed to it, that cash can buy investments/assets that generate returns for the HSA. Those returns are allowed to grow tax-free over time.

Distributions can be taken for qualified medical expenses at any time, tax-free (similar to a Roth IRA).

An HSA combines the benefits of a Traditional IRA, a Roth IRA, and an FSA, all in one account, completely controlled by the account holder.

You Control Your HSA

When you have an HSA, the money in that account is under your individual control. You, the account holder, make the decision about where the money is held, when the money is distributed, and how the money is invested.

This is true even if:

- You have your HDHP through your employer.
- Your employer makes contributions to your HSA.
- You change insurance carriers.
- You change employers.
- You no longer have an HDHP.

In some cases, an HSA gets opened for the HDHP holder at the insurance company or bank. The account holder can choose to stay with that provider or switch to a provider that offers more investment opportunities like NDTCO.

Health Savings Account

You may also have more than one HSA. It is a common strategy for an HSA holder to have some liquid funds to cover the amount that they might need should there be a medical emergency and then have the balance invested in assets that make a better return over the long run. These two goals can be accomplished with two HSAs or just one with a full-service provider like New Direction Trust Company. An HSA combines the benefits of a Traditional IRA, a Roth IRA, and an FSA, all in one account, completely controlled by the account holder.

What Can an HSA Invest in?

An HSA is an individual, custodial account, similar in many ways to an IRA. Most notably, the IRS allows tax advantages for the cash and assets associated in your HSA that allow you to unlock the potential of long-term investing for health care expenses as well as deal with current health costs.

An HSA with New Direction can have a ready cash position AND AT THE SAME TIME invest in:
All types of stocks, funds, etc. *

- Real Estate
- Precious Metals
- Notes
- Private Equity

**Some HSA Providers limit the funds and other investments available*

Who Can Open an HSA?

To be an eligible individual and qualify for an HSA, you must meet the following requirements:

- You must be covered under a high deductible health plan (HDHP) on the first day of the month.
- You may have no other health coverage except insurance for:
  - Liabilities incurred under workers' compensation laws, tort liabilities, or liabilities related to ownership or use of property.
  - A specific disease or illness.
  - A fixed amount per day (or other period) of hospitalization.
- You can also have coverage (whether provided through insurance or otherwise) for the following items:
  - Accidents
  - Disability
  - Dental care
  - Vision care
  - Long-term care
  - You are not enrolled in Medicare
  - You cannot be claimed as a dependent on someone else's tax return

Qualified Medical Expenses (QMEs) for HSAs

An HSA can reimburse you, tax free, for the medical and healthcare expenses that you expect, like hospital bills, prescriptions, etc. But that is not all. QMEs for HSA reimbursement also include treatments that might not have been covered by your health plan. Tax free distributions are also allowed for QMEs that your spouse and dependents incur as well as yours.

QMEs include:

- Schedule A medical expenses
- Dental
- Chiropractic
- Vision
- Insulin
- Many more...

HSAs Can Pay for a Lifetime's Medical Expenses

Once you open an HSA, you (or anyone else) can make the maximum yearly contribution to that account, whether you have any medical expenses that year or not.

Contributing the annual maximum while spending as little as possible from the account creates an opportunity for the HSA to handle short-term expenses as well as deal with long-term expenses. Many HSA holders keep enough liquid cash in their account to handle the required deductible for that medical year, but invest the rest in assets that can generate greater long term returns.

Tax-free distributions from an HSA for QMEs that occur after the HSA is open can take place at any time. So, if you can pay your deductible in a given year without dipping into your HSA, you can have your HSA contributions making money from which to take distributions later.

After age 65, distributions for non-QMEs are not penalized. They are taxed in the same way that Traditional IRAs are, but there is no penalty and no requirement to have the distribution linked to a medical expense.

Tax-free distributions can be made up to 1 year after the HSA holder's death; the rest goes to designated beneficiaries.