Your Health Savings Account: A Good Fit for Now and the Future

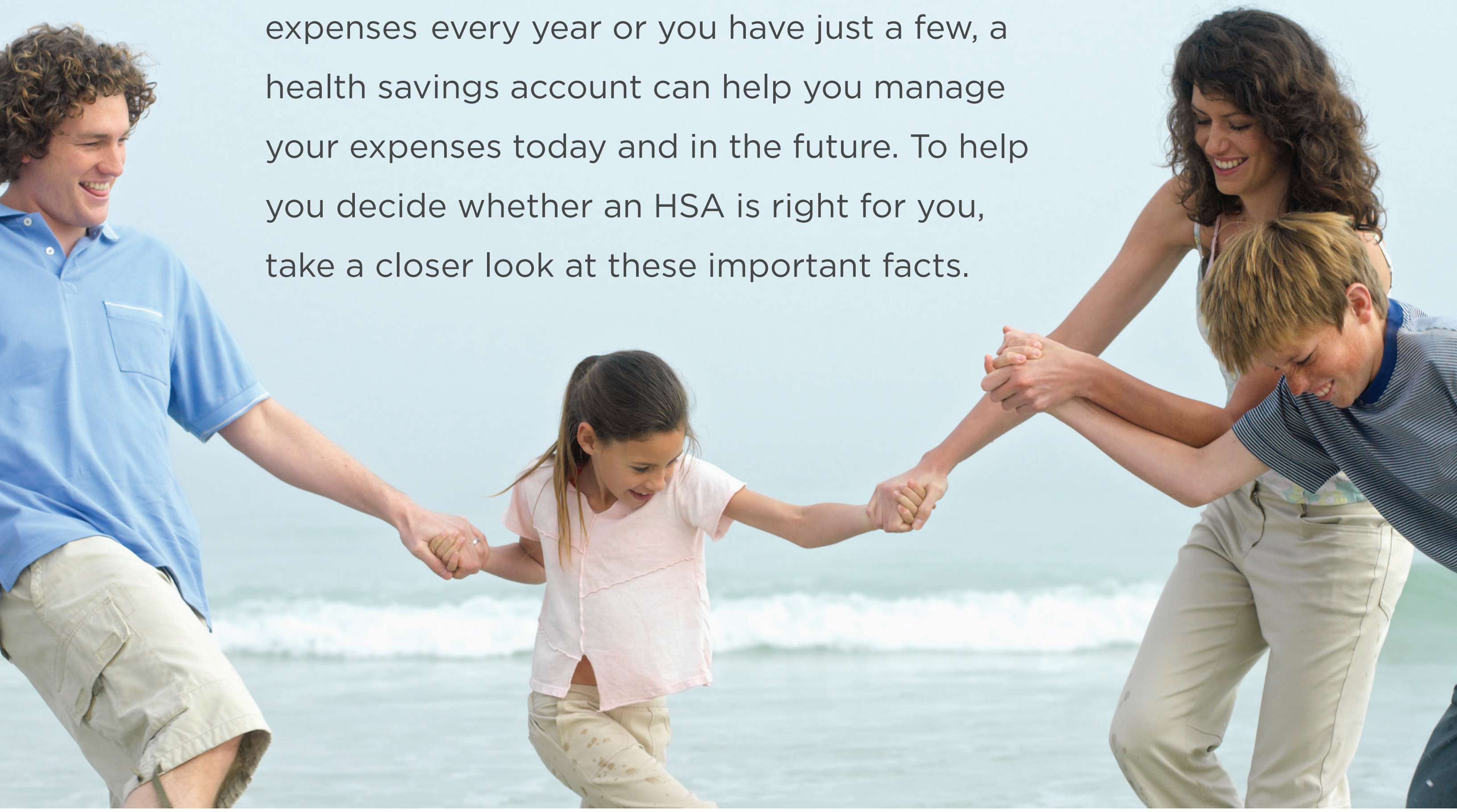
If you answered yes to any of these questions, turn the page to see how a health savings account might be a good solution for you—today, next year or in retirement.

UMB | Healthcare Services

Four Things You Should Know

about Health Savings Accounts

Whether you're juggling a lot of health care expenses every year or you have just a few, a health savings account can help you manage your expenses today and in the future. To help you decide whether an HSA is right for you, take a closer look at these important facts.



1 You own it

The money in this savings account is always yours, even if you change jobs, switch your health plan, become unemployed, retire or move to another state. And you start earning interest on the balance in your account from day one. No waiting or vesting periods.

If you've ever put money into a flexible spending account, you know that there's a use-it-or-lose-it rule—spend your balance each year or lose it forever. With an HSA, **your unused balance rolls over from year to year** so you never lose the money. And the longer you save it, the longer it accrues interest.

Your account is yours, even if you're not eligible to contribute

If you are no longer in an HSA-qualified high-deductible health plan or other circumstances change, your HSA is still yours. You aren't allowed to make new contributions, but you can keep the account as long as you like. Withdrawals for eligible expenses are always tax-free!

2 You save on taxes in three ways

1. **Tax-free deposits.** The money you contribute to your HSA isn't taxed. Whether or not you itemize deductions on your income tax return, your HSA contributions are deductible. You can keep contributing for the current tax year until April 15 of the following year—up to the IRS annual limit—to maximize your tax savings. (Look up the current IRS maximum at **hsa.umb.com**.)
2. **Tax-free earnings.** Your interest and any investment earnings grow tax-free.
3. **Tax-free withdrawals.** The money you withdraw—today or in the future—isn't taxed, as long as you use it to pay for eligible medical expenses. That's different from a 401(k) or similar retirement plans, which are taxed when you withdraw funds.

***Note:** States can choose to follow the federal tax-treatment guidelines for HSAs or establish their own; some states tax HSA contributions. If you have questions about your tax implications, consult your tax advisor.*

3 You choose how to spend the money—now or later

An HSA is a great place to build up savings for expenses you have today or will have in the future. Injuries or a new diagnosis might mean you need to pay a lot of bills at one time. Or you may need to cover expenses that count toward your deductible like doctor visits or prescription drugs. If your budget isn't flexible, use your HSA to pay bills this year.

But if you can afford to pay bills out of pocket and save the money in your HSA for the future, then your HSA balance will grow through interest and investment earnings. That way you'll have more money for expenses when you need it most—whether in a year, 10 years or in retirement.

4 You must be eligible to open the account

To take advantage of such great tax breaks, the IRS says that only eligible individuals can save in an HSA. To open and contribute to an HSA, you:

- Must participate in an HSA-qualified high-deductible health plan (HDHP);
- Can't participate in another health plan that's not a high-deductible health plan (for example, a spouse's plan). Some exceptions may apply (get more details in IRS publication 969 at **www.irs.gov**);
- Can't be enrolled in Medicare benefits; and
- Can't be claimed as a dependent on anyone else's tax return.

Partial-year participation:
*If you open your account mid-year or become ineligible mid-year, your contribution limits may be impacted. If you are married, your spouse's participation in a health care flexible spending account or other family health insurance coverage may change your eligibility. Visit **hsa.umb.com** for more details.*

Remember: Open Your HSA!

Once you've chosen a high-deductible health plan, you need to take the next step and open your HSA. If you don't, you won't be able to contribute to the account and enjoy all the tax benefits. And you may miss out on free money from your employer.

Opening your UMB HSA is easy! Follow the instructions provided by your employer or go to **hsa.umb.com** and look for the "Open an HSA" button.

The Life of an HSA Dollar

Money goes in ...

You build your HSA balance in three ways:

1 Payroll Contributions. Most people prefer to make regular contributions through payroll deductions. Sign up through your employer, and your contributions will be deducted from every paycheck on a pretax or after-tax basis, or both—depending on what your employer allows. You can change your contribution rate at any time—when your monthly budget changes or you expect more bills. If you haven't already received instructions from your employer on how to get started, contact HR. If your employer does not support payroll contributions, see **Direct Contributions** for other ways you can contribute to your account.

2 Direct Contributions. These are after-tax contributions made by you or on your behalf. To make a direct contribution, you can:

- ✓ *Electronically transfer the funds* from a personal account. Log into your account at **hsa.umb.com** and select "Make a Contribution."
- ✓ *Write a personal check.* Mail your check along with a contribution coupon to UMB (get it from the *Documents & Forms* section of **hsa.umb.com**). Contribution deposits are credited on the date of receipt.

Lump-sum contributions can also be deducted from your gross income on your annual tax return so that you won't owe income taxes—whether you itemize your expenses or not.

3 Employer Contributions. Check to see whether your employer will provide funding to your account. When the contributions are made can vary as well. Keep in mind that any contributions your employer makes cannot be deducted on your tax return—they are not considered taxable income, so you don't pay taxes on them.

Did you know?

Any contributions made on an after-tax basis can be claimed on your tax return.

All contributions—yours or your employer's—count toward the annual maximum set by the Internal Revenue Service. Go to **hsa.umb.com** for current annual limits.

Friends and family members are allowed to make contributions to your HSA on your behalf, and you can deduct those contributions when filing your annual income taxes just as though you contributed the money yourself.

And grows ...

Need a little incentive to build your balance? Your money works for you in three ways when you're not spending it.

1. For starters, you earn interest—accrued daily and paid monthly—on your balance.
2. When your balance reaches $1,000 (also known as the "peg balance"), you can invest your HSA funds two ways: into a money market sweep account[1] or a self-directed brokerage account[2]. Visit **hsa.umb.com** for more details about available investment options.
3. Finally, you are never taxed on the growth of your account—in the year that you earn it or when you take money out to pay for qualified medical expenses.

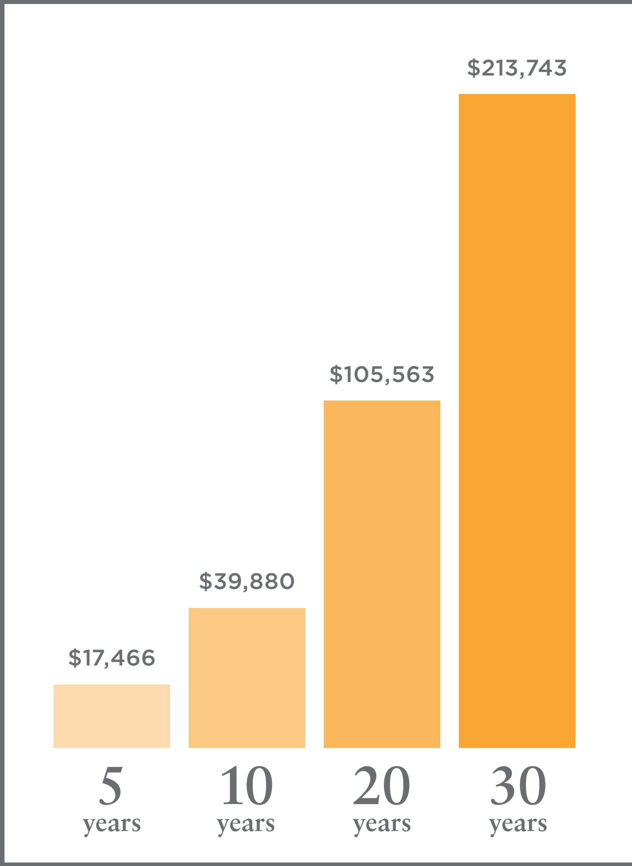
Saving for the future

The sooner you start saving, the better. Why? Because the impact of compound returns grows your money exponentially over time. Compound returns are generated from your investment gains and interest both on the original amount invested and your reinvested earnings.

Here's an example of how compounding works:

If you saved $3,000 per year, compounded at a 5% rate of return, after 30 years, you could potentially have $213,743 tax-free dollars to use when you need it. For example, to pay for qualified medical expenses, Medicare premiums, or to supplement your retirement income.

Note: This example is a hypothetical illustration of compounding returns over time and is not intended to represent any particular investment or savings vehicle. The rates of return are constant nominal rates, compounded monthly. Actual investments will fluctuate in value. Contributions are assumed to be made at the beginning of the month. It does not take into consideration taxes or other applicable deductions, which will lower returns.



Money comes out …

Your account balance is reduced when you pay for expenses with available funds and through applicable account holder fees.

Paying for expenses

When you have a medical bill, you have a decision to make. Spend your HSA funds? Or let your balance keep growing?

Since your HSA is like a personal banking account, check that you have enough money in your account to cover a bill before you pay it. Don’t have enough saved up? Pay your bill out of pocket. Then, if you still want to use your HSA funds, you can reimburse yourself no matter when you incurred the expense.

When ready to pay a bill, follow these three steps:

1. **Check if it’s eligible.** Since your health savings account is supposed to work together with your high-deductible plan, qualified eligible expenses for your HSA are typically the same bills that count toward your deductible, plus some vision and dental costs. A full list of qualified expenses can be found in IRS Publication 502 at **www.irs.gov**.
2. **Choose a payment method.** See table below for guidelines.
3. **Save your receipts.** The IRS may request that you show proof of how you used your tax-free money.

Lower your bills

So you can save more, try to:

1. Get regular preventive care.
2. Visit urgent care clinics for non-emergencies.
3. Ask for generic prescription drugs.
4. Get a second opinion for new diagnoses.
5. Use online web tools to comparison-shop and plan for non-emergency services.

Did you know?

Even if your spouse or dependents you claim on your tax return are not covered by your high-deductible health plan, you may use your HSA dollars to pay for their qualified medical expenses.

PAYMENT METHOD

When?	Pay your bill with …
At the pharmacy. Swipe your debit card like any other credit card when you purchase prescription drugs at a network pharmacy. (Your debit card will arrive in the mail once you open your account.) Your pharmacist can typically calculate your cost, including whether or not you’ve met your deductible, right at the time of your purchase. Also use for vision or dental care.	**Debit card**
After you get a bill from a network provider. Wait for your claim to be processed so that you get the network savings and deductible credit applied to your doctor or hospital bill before you pay. Then you can give your HSA debit card number. If your provider won’t accept a debit card payment, log into your account on **hsa.umb.com** to have a check sent directly to your provider. Pay for your long-term care premiums this way, too.	**Debit card or via online bill pay**
After you’ve paid in full to see an out-of-network provider. Some providers may require payment at the time of service. And your total bill may vary depending on whether or not you’ve met your deductible. Once you are logged into your account on **hsa.umb.com**, follow the instructions to “Request a Reimbursement.”	**Online reimbursement**

Account Fees

Just like any other bank account, certain fees may be deducted from your balance. UMB uses a simple fee schedule. (For a full list of fees please consult the Accountholder Fee Schedule.) Here's an example:

Fees do NOT apply	Fees apply
Online enrollment	Self-directed Brokerage Account trades (investment option)[2]
Money Market Sweep (investment option)[1]	Low monthly service fee (Some employers may pay your fee. Fee may be waived depending on your average daily balance.)
Payroll or one-time lump-sum contributions	
Debit card, online payment or online reimbursement withdrawals	

Filing Your Tax Return

With such great tax breaks, it's probably not a surprise you'll need to do some tax work. We'll help you by supplying key IRS forms. But it's up to you to file your annual federal and state income tax returns and save your itemized receipts in case you need to prove to the IRS that distributions from your HSA were for qualified medical expenses.

You'll receive up to two forms from us and one you'll need to complete on your own[3]:

IRS Form 5498-SA: This form documents all the contributions made to your HSA in a tax year. You can find information about your total contributions prior to tax day by logging into your account at **hsa.umb.com**.

IRS Form 1099-SA: This form provides you with the total distributions that were made from your HSA. You will receive a separate 1099-SA for any HSA distributions you had in that tax year. If you did not have distributions during the tax year, you will not receive a 1099-SA.

IRS Form 8889: This is the HSA form for you to complete and attach to your IRS 1040 Form. This form will allow you to calculate and report any deductible contributions, report distributions you took to pay qualified medical expenses, and calculate any tax you owe on withdrawals you made for non-medical-related purposes.

For detailed information about tax reporting with your HSA, visit the U.S. Internal Revenue Service website at **www.irs.gov**.

NOTE: *If you use your HSA funds to pay for goods or services that aren't qualified medical expenses, you are responsible for reporting that to the IRS, paying income taxes on the amount and a 20% penalty if you are under age 65.*

Online Account Access

There's only one thing easier than *opening* your HSA and that's managing your account online. Once you register for online account access, here are just some of the things you can do:

- **Pay** qualified medical expenses online or reimburse yourself.
- **Contribute** on a one-time or regular basis.
- **Update** your personal contact information and beneficiaries.
- **Review** your statements or important tax information, including your total contributions and the fair market value of your HSA.
- **Access** HSA Future Value and Tax Savings Calculators, detailed FAQs, and other helpful resources.
- **Enroll** in and manage investment options.

Questions? More details?

Online at **hsa.umb.com**. Log in to see your account balance, pay bills, invest your balance, try out calculators, get tips and more!

By phone at **866.520.4HSA** (**4472**): Automated balance and recent activity available 24-hours from your home phone. Or representatives are available Monday through Friday from 7:00 a.m. to 7:30 p.m. CT and Saturday from 8:00 a.m. through 5:00 p.m. CT.

[1]A peg balance (currently $1,000) is set to determine the amount of money that moves in and out of the money market mutual fund. Funds in your HSA up to the $1,000 peg balance, are a deposit in an FDIC-insured account. Funds in excess of $1,000 are an investment in a money market mutual fund that is not insured by the FDIC or any other governmental agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

[2]Investments you make through your self-directed brokerage account are not FDIC-insured. Securities offered through UMB Financial Services, Inc., member FINRA (www.finra.org), SIPC (www.sipc.com). UMB Financial Services, Inc. is a subsidiary of UMB Bank, n.a. UMB Bank, n.a. is a wholly owned subsidiary of UMB Financial Corporation. UMB Financial Services, Inc. is not a bank and is separate from UMB Bank, n.a. and other banks.

Investments in securities, whether through the Money Market Sweep Account or through investments in the Self-directed Brokerage Account are:
Not FDIC-Insured · May Lose Value · No Bank Guarantee.

[3]Neither UMB Bank n.a., nor its parent, subsidiaries, or affiliates are engaged in rendering tax or legal advice and this checklist is not intended as tax or legal advice. All mention of taxes is made in reference to federal tax law. States can choose to follow the federal tax-treatment guidelines for HSAs or establish their own; some states tax HSA contributions. Please check with each state's tax laws to determine the tax treatment of HSA contributions, or consult your tax adviser. Additional federal and state forms may be required.