

# Health Savings Account (HSA) Report

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Prepared for  
Organization

**Ben Thompson**  
**ABC, Inc.**

HR Classification  
Coverage Type  
Prepared by  
Date

**Senior Management**  
**Employee Only**  
**Susan Marshall, CFP®**  
**1/3/2008**

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**Our telephone consultation to answer any of your questions is scheduled for:**

|                                    |
|------------------------------------|
| <p><b>Friday, Jan. 4, 2008</b></p> |
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|                        |
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| <p><b>11am EST</b></p> |
|------------------------|

**I will contact you by phone through MyFinancialAdvice.com.**

**I look forward to speaking with you then.**

# Health Savings Account (HSA) Report

## 1. Recommendations Summary

| Qualified HDHP/HSA   | Yes  | No | N/A |
|--|--|----|-----|
| <ul style="list-style-type: none"> <li>Enroll in <b>HDHP</b></li> </ul>  | ✓  |    |     |
| HSA Funding  | Yes  | No | N/A |
| <ul style="list-style-type: none"> <li>Open/Fund Health Savings Account (<b>HSA</b>)</li> </ul>  | ✓  |    |     |
| <ul style="list-style-type: none"> <li>Make a <b>catch-up HSA contribution</b> this year</li> </ul>  |  |    | ✓   |
| Contribution Amount  |  |    |     |
| <ul style="list-style-type: none"> <li>Recommended 2008 calendar year contribution level<br/>Feb., 2008 ABC contribution eligibility: (eligible / not eligible)</li> </ul> | <span style="color: blue; font-weight: bold;">(\$2,600 / \$2,900)</span> |    |     |

### Recommendation Comments:

In determining whether an HSA may be appropriate for your situation, I've analyzed the information you provided in your questionnaire, and have drawn up a financial comparison between your **HDH Plan** option (with HSA) and your **Traditional PPO Plan** option. In my analysis I considered the following:

- Anticipated healthcare needs
- Health plan contribution cost savings
- Plan deductible differences
- HSA tax savings and employer contributions
- Long term financial planning implications of HSA selection

In the following sections, you can review the financial comparisons upon which my recommendations are based. I've also provided a series of discussion points we can address together during our consultation.

### 2. What is a Health Savings Account (HSA) and How Does it Work?

- An HSA is a special type of savings account you can use to set aside funds on a tax-advantaged basis to pay for health care costs. The money you put into your HSA will reduce your income taxes similar to the way saving in your 401(k) or 403(b) does. If you use the money to pay for qualified medical expenses, it will not be taxed.
- You can use the money in your HSA to pay for your and your family members' qualified medical expenses, which include your health insurance deductible, co-payments for medical services, prescriptions, over-the-counter drugs, long-term care insurance, and health insurance premiums during any period of unemployment.
- Whatever you don't spend from your HSA in one year rolls over to the next, and earnings and interest grow tax free.
- If you retire or leave **ABC, Inc.** for any reason, you can take the full balance in your HSA with you. Any contributions your employer makes vest immediately.
- You cannot open an HSA unless you have health insurance that meets certain requirements and is "HSA-qualified." **ABC, Inc.'s HDH Plan** is an HSA-Qualified Plan.

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## 3. Am I Eligible for an HSA?

### HSA Eligibility Matrix

| Eligibility Category  | Notes  | Scheduled for Discussion |
|---|--|--------------------------|
| <b>Health Coverage Requirement</b>  | <ul style="list-style-type: none"> <li>Individual must be covered by HSA-qualified plan.</li> </ul>  | ✓                        |
| <b>Health Coverage Restriction</b>  | <ul style="list-style-type: none"> <li>Individual must NOT have other “first dollar” health insurance coverage.</li> <li>The following forms of insurance may pay medical bills, but DO NOT prevent participation in an HSA:<br/><br/><i>Auto, dental, vision, disability and long-term care insurance, and drug discount cards</i><br/><br/><i>Coverage for a specific disease or illness (as long as it pays a specific dollar amount when the policy is triggered)</i><br/><br/><i>EAP and wellness programs offered by your employer are also permitted if they do not pay significant medical benefits</i></li> </ul> | ✓                        |
| <b>Medicare</b>   | <ul style="list-style-type: none"> <li>Individual can NOT be enrolled in Medicare and open an HSA.</li> </ul>  | ✓                        |
| <b>Flexible Spending Accounts (FSAs) and Health Reimbursement Account (HRA)</b> | <ul style="list-style-type: none"> <li>Individuals receiving ‘first dollar’ medical benefits from FSAs or HRAs are NOT eligible for HSAs.</li> <li>The following FSA/HRA types DO NOT prevent participation in an HSA:<br/><br/><i>“Limited purpose” FSAs/HRAs</i><br/><br/><i>“Post deductible” FSAs/HRAs</i><br/><br/><i>“Retirement” HRAs</i></li> </ul>  | ✓                        |
| <b>Active Military/ Tricare Coverage</b>  | <ul style="list-style-type: none"> <li>Tricare does not currently offer an HDHP option so you are not eligible for an HSA.</li> </ul>  | ✓                        |
| <b>Veterans</b>   | <ul style="list-style-type: none"> <li>Individuals that have received any health benefits from the Veterans Administration or one of their facilities, including prescription drugs, in the last three months are NOT eligible for an HSA.</li> </ul>  | ✓                        |
| <b>Spousal Coverage</b>   | <ul style="list-style-type: none"> <li>Individual can NOT be covered under a spouse’s insurance coverage that is first dollar, including their FSA or HRA.</li> </ul>  | ✓                        |
| <b>Tax Status</b>   | <ul style="list-style-type: none"> <li>Individual can NOT be claimed as a dependent on someone else’s tax return.</li> </ul>   | ✓                        |

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## 4. Plan Year Financial Comparisons

### Annual Contribution Comparison

| Plan Cost Breakdown | HDHP  | Traditional PPO |
|---------------------|-------|-----------------|
| You Pay             | \$396 | \$1,287         |
| Cost Savings        | \$891 |                 |

### Annual Deductible Comparison

| Plan Feature                            | HDHP             | Traditional PPO |
|---|------------------|-----------------|
| Annual Deductible (In / Out of Network) | \$1,100/ \$2,200 | \$300/ \$600    |
| Employer HSA Contribution*              | \$300            | \$0             |
| You Pay Up To**                         | \$800/\$1,900    | \$300/ \$600    |

\*Subject to eligibility requirements. Eligible employees are those that did not receive ABC's \$300 contribution last year.

\*\*Assumes employee eligibility and full use of company contribution.

### Out-of-Pocket Maximum Comparison

| Plan Feature                                | HDHP             | Traditional PPO |
|---|------------------|-----------------|
| Out-of-Pocket Maximum (In / Out of Network) | \$2,200/ \$5,000 | \$900/ \$5,000  |

Certain services/treatments may not apply to Out-of-Pocket Maximum.

HDHP: Out-of-Pocket Maximum INCLUDES deductibles AND co-pays.

Traditional PPO: Out-of-Pocket Maximum INCLUDES deductibles but NOT co-pays.

### Plan Limit Comparison

| Plan            | Plan Limit  |
|-----------------|-------------|
| Qualified PPO   | \$2,000,000 |
| Traditional PPO | \$2,000,000 |

Once the Out-of-Pocket Maximum is realized, the plan pays 100% of eligible expenses up to plan limit(s).

### Plan Year Federal Tax Savings

| Recommended Annual HSA Contribution Level        | Estimated Tax Savings |
|--|-----------------------|
| \$2,600 if eligible for ER cont./ \$2,900 if not | \$750                 |

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## 5. How Can an HSA Save Me Money?

| Topic   | Discussion Points  | Additional Notes and Recommendations  |
|---|--|---|
| <b>Plan Premium Savings (Current Plan Year)</b>   | Because the <b>HDHP</b> has a higher deductible than the <b>Traditional PPO</b> , employee contribution cost is lower. Choosing the <b>HDHP</b> with an HSA could result in significant savings.   | You would save \$891 in plan year contribution costs by choosing the HDHP over the Traditional PPO option. These savings could be used to fund your HSA account   |
| <b>Your Contributions (Calendar Year)</b>         | <ul style="list-style-type: none"> <li>The money you contribute to your HSA will reduce your income taxes similar to the way saving in your 401(k)/403(b) does.</li> <li>Unused contributions may be saved and carried forward with earnings and/or interest accumulating tax free.</li> <li>For 2008, HSA contribution maximums are: \$2,900 (single coverage) and \$5,800 (family coverage). Contribution maximum reduced by \$300 for employees eligible to receive ABC HSA contribution.</li> </ul> <p>Account owners between the ages of 55 and 65 may contribute an <u>additional</u> \$900 to their HSA. (catch-up)</p> | <p>If you're able, I recommend making the maximum allowable annual HSA contribution:</p> <p><b>\$2,900</b><br/>(if you are not eligible for ABC's \$300 lump sum contribution)</p> <p><b>\$2,600</b><br/>(if you are eligible for ABC's \$300 lump sum HSA contribution)</p> <p>Your estimated annual federal tax savings based on the recommended contribution amount is \$750</p> |
| <b>Employer Contributions (Current Plan Year)</b> | <ul style="list-style-type: none"> <li>Contributions made by your employer on your behalf can be used to pay qualified medical expenses tax free.</li> <li>Unused contributions may be saved and carried forward with earnings and/or interest accumulating tax free.</li> </ul> <p><i>Note: You may not deduct employer contributions made on your behalf on your taxes.</i></p>  | <p>If you are eligible, your employer will make a \$300 lump sum contribution to your HSA account at the beginning of your plan year (February, 2008).</p> <p>This money can be used to offset HDHP deductible expenses, and to pay for qualified medical expenses tax-free.</p>  |
| <b>Withdrawals</b>                                | <ul style="list-style-type: none"> <li>Withdrawals made to pay for <u>qualified medical expenses</u> are NEVER taxed.</li> </ul> <p><i>Note: Withdrawals made for purposes other than paying qualified medical expenses are subject to a 10% penalty tax (exceptions: death, disability, age 65).</i></p>  |   |
| <b>Preventive Care/Wellness Programs</b>          | <ul style="list-style-type: none"> <li>Your <b>HDHP</b> provides various preventive care services at no cost.</li> </ul>   | This could result in significant additional savings. Request additional information from HR.  |

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## 6. Long Term HSA Benefits & Financial Planning Opportunities

| Topic   | Discussion Points  | Additional Notes and Recommendations  |
|---|--|---|
| <b>Contribution Option Flexibility</b>                        | <ul style="list-style-type: none"> <li>• Payroll deduction</li> <li>• Lump sum contribution</li> <li>• One time IRA rollover – subject to limitations</li> <li>• One time rollover from flexible spending account (FSA) – subject to limitations</li> <li>• One time rollover from health reimbursement account (HRA) – subject to limitations</li> </ul> <p><i>Warning: Funding HSAs may result in tax liability if “testing period” requirement is not met.</i></p>      | <p>You indicated in your questionnaire that you had an IRA. You may fund your HSA account with a one-time rollover from your IRA, and use these funds to pay for qualified medical expenses, tax-free.</p> <p>Note: ABC offers a payroll deduction option to fund your HSA.</p> |
| <b>Tax-Free Funding Source for Qualified Medical Expenses</b> | <p>Qualified medical expenses include:</p> <ul style="list-style-type: none"> <li>• Health insurance deductible*</li> <li>• Co-payments for medical services, prescriptions, or products *</li> <li>• Over-the-counter drugs</li> <li>• Vision (including LASIK)</li> <li>• Dental (including orthodontia)</li> <li>• Long-term care insurance premiums*</li> <li>• Health insurance premiums during any period of unemployment</li> </ul> <p><i>*Limits may apply</i></p> |   |
| <b>Complete Funding of Deductible Over Time</b>               | <ul style="list-style-type: none"> <li>• Over time, if you contribute more to your HSA than you take out, savings and interest can take care of your plan deductible.</li> </ul>   |   |
| <b>Account Ownership</b>                                      | <ul style="list-style-type: none"> <li>• You are the owner of your HSA. Even if you leave your employer, the money is yours (including any employer contributions).</li> </ul>   |   |
| <b>Funding Retirement</b>                                     | <ul style="list-style-type: none"> <li>• Unused HSA funds grow tax-deferred like an IRA. If you wait until you’re 65, you can use the money to pay for anything you want – with no penalty. Withdrawals after 65 are taxed as ordinary income.</li> <li>• Between contributions and account interest/earnings, your savings over time can be substantial.</li> </ul>   |   |

# Health Savings Account (HSA) Report

## 7. How Do I Decide If an HSA is Right for Me?

| Topic   | Discussion Points  | Additional Notes and Recommendations   |
|---|--|--|
| <b>Ability to Fund HSA/<br/>Potential Cost Savings<br/>(Current Plan Year<br/>Contribution and Tax<br/>Savings)</b> | <ul style="list-style-type: none"> <li>• Can you afford to contribute to an HSA?</li> <li>• Consider health plan contribution cost savings, tax savings and any company contributions.</li> </ul>  | <p>According to your questionnaire you are comfortable funding your HSA at the same level you are funding your ABC retirement plan. This is more than enough to fully fund your HSA this year.</p> |
| <b>Anticipated Medical<br/>Expenses (Doctor Visits,<br/>Prescription Costs, etc.)</b>                               | <ul style="list-style-type: none"> <li>• Are your medical expenses generally high? (consider: prescriptions, doctor/ER visits, conditions requiring frequent care).</li> <li>• Do you anticipate a large one time expense during the year? (example: Chronic conditions, previously diagnosed illnesses/conditions, anticipated pregnancy, etc)</li> </ul> | <p>Based on the information you provided in your questionnaire, you are in excellent health and do not anticipate major expenses in the coming plan year.</p>                                      |
| <b>Comfort Level / Maximum<br/>Out of Pocket Potential</b>  | <ul style="list-style-type: none"> <li>• If you experience substantial medical expenses, are you comfortable with the <b>HDHP's</b> Out-of-Pocket Maximum?</li> </ul>  | <p>The Annual Maximum Out of Pocket Expense for your HDHP option is \$2,200 in network/ \$5,000 out of network (including deductibles and co-pays)</p>   |
| <b>Need for Tax Advantaged<br/>Savings Vehicle</b>  | <ul style="list-style-type: none"> <li>• HSAs may be used as a tax-advantaged savings vehicle for individuals currently maxing out 401(k), IRA and other available tax-advantaged accounts.</li> </ul>   |  |

# Health Savings Account (HSA) Report

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## 8. Advisor's Summary Notes

Hello Ben,

Based on your responses the HSA Evaluation/ Client Information form, you are in excellent health and do not anticipate any major medical expenses in the coming plan year. My financial comparisons demonstrate that choosing the HDHP/HSA option over the Traditional PPO option would offer immediate cost and tax savings while providing you with an opportunity to accumulate retirement savings.

If you're comfortable with the potential out of pocket expenses, and there are no eligibility issues (we will discuss during our consultation), I would recommend the Qualified PPO/HSA option, and would recommend that you fully fund your HSA account this calendar year.

If you have any questions specific to this report or our consultation, please feel free to call.

Thank you-

Susan Marshall, CFP®