Health Savings Accounts, from a tax perspective

Save it. Use it. Never lose it.®[1]

Triple tax advantages

- **Pre-tax contributions**
- **Tax-free interest and potential investment earnings**
- **Tax-free payments for qualified medical expenses**

Tax advantages of an HSA

Health Savings Accounts (HSAs) can offer you multiple tax-savings benefits. HSAs can be a smart choice for taking care of medical expenses today and saving for payment of unreimbursed health care expenses in the future on a tax-advantaged basis.

Tax-free contributions

Your HSA contributions are made with before-tax dollars; they are not subject to federal income tax. You may be able to claim a tax deduction for contributions you, or someone other than your employer, make to your HSA. State taxes on HSAs are also waived in most states. Check with your tax advisor for your specific state's HSA regulation.

Tax-free earnings

Any investment earnings in your HSA account have the potential to grow tax-free, including dividends, interest and capital growth.

Tax-free distributions

An HSA enables you to make tax-free payments for qualified medical expenses incurred after you establish the HSA, including some that are not typically covered by insurance or Medicare.[2] This means you reduce your current taxes, have potential to achieve earnings on your contributions and you pay no taxes on the amounts withdrawn to pay for the qualified medical expenses. These can include nursing home care, premiums for long-term care insurance, prescription drugs, vision care, orthodontia, chiropractic treatment and more. For a list of qualified expenses, visit www.irs.gov/pub/irs-pdf/p502.pdf. However, you should also contact your employer for a description of eligible expenses actually covered under your HSA. Your employer may limit the scope of expenses covered under the HSA.

Use your HSA for yourself, your spouse or qualified dependents

You can take tax-free distributions for qualified medical expenses for yourself, your spouse and any qualified dependents. And, if you die, your HSA balance can be transferred to your spouse without any taxes due.

An HSA is a tax benefit, so you need to maintain accurate records of any payments you make. The IRS requires that you keep receipts for qualified medical expenses. You don't have to send them with your tax return, but if you are ever audited, you will need to produce them.

Additional tax benefits through payroll

You can realize additional tax savings by making your HSA contributions through payroll deduction. Contributions are not subject to taxation under the Federal Insurance Contributions Act (FICA) or the Federal Unemployment Tax Act (FUTA) amounting to typical savings of 7.65%[3] subject to limits of the Social Security Wage Base.

Your HSA is portable

Even if you change jobs or retire, your HSA stays with you. If you are no longer enrolled in a high-deductible health plan, you won't be able to contribute to your HSA, but you can still use the existing funds tax-free for qualified medical expenses.

Tax forms for your HSA

There are a number of tax forms involved in managing your HSA.

IRS Form	Sent	Purpose
1099-SA	End of January	Reflects all distributions from your HSA for the previous tax year.
5498-SA	End of May	Shows your total prior-year contributions, which can be made until the federal tax filing deadline (typically April 15).

[1] "Never lose it" refers to account portability and annual rollover of accumulated assets; it does not imply that you cannot lose money. The investment portion of the HSA account is not FDIC insured, not bank guaranteed and may lose value.

[2] If you receive distributions for other reasons, the amount you withdraw will be subject to income tax and may be subject to an additional 20% tax.

[3] Source: IRS publication 15

Funds in your HSA don't expire

Whether you have qualified medical expenses or not, the funds in your HSA roll over and have the potential to accumulate each year. So, instead of spending all of your money each year, you can save the money for future medical expenses.

What you need to know

HSAs offer a number of tax benefits. Here are some general tax guidelines to consider when contributing to and receiving distributions from an HSA.

Contribution tax considerations

- Payroll deductions for contributions to an HSA are pretax and reduce the amount of your taxable income.
- Contributions made by your employer on your behalf are excluded from your gross income.
- You can make tax-free contributions to an HSA as long as you are enrolled in a qualified high-deductible health plan or until you enroll in Medicare.
- Any earnings in an HSA accumulate tax-free provided you use them to pay for qualified medical expenses.
- If you directly contribute to your HSA (outside of payroll), you may be able to take an HSA deduction on your federal and possibly state income tax returns.
- Unlike IRA contributions, if you make a tax-deductible HSA contribution, you can do so regardless of your income, tax-return filing status or employment status.
- If you are 55 years or older, you can make an additional $1,000 annual catch-up contribution to your HSA.

Distribution tax considerations

- You can take tax-free distributions for qualified medical expenses incurred after you establish the HSA for you, your spouse and any dependents, including after age 65. See IRS Publications 502 and 969, available at: http://www.irs.gov/pub/irs-pdf/p502.pdf and http://www.irs.gov/pub/irs-pdf/p969.pdf.
- If you use distributions before age 65 for nonqualified medical expenses, those withdrawals are subject to ordinary income tax plus an additional 20% federal excise tax (although the additional 20% tax will not apply under certain circumstances).
- After age 65, you can withdraw funds for non-medical expenses and only pay ordinary income taxes.
- Unlike IRAs, HSAs do not require you to take minimum distributions at age 70½.
- If you die and your spouse is your designated beneficiary, your HSA can be transferred to your spouse without taxes due. It will be treated as your spouse's HSA after your death. If your HSA assets transfer to a beneficiary other than a spouse, the beneficiary must report those HSA assets received in his or her gross income the year in which you die. If no beneficiary is available, HSA assets transfer to your estate and the value is included on your final income tax return.[4]

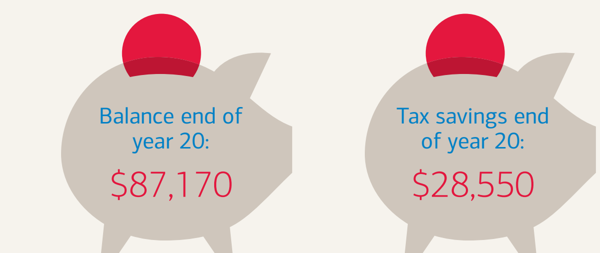
Tax consequences can vary, based on your individual situation. It's a good idea to consult with a tax advisor regarding HSA contributions and distributions.

Tax savings increase over time

When you take advantage of the tax benefits of an HSA, your savings can add up over time.

20 years of tax savings

Annual HSA contributions	$3,000
Annual expenses from HSA	$500
Federal tax bracket	28%
State tax	0%
Assumed investment earnings	5.5%
Number of years to project	20



**This illustrates a net contribution of $2,500 per year. Over 20 years, this adds up to $50,000.*

[4] HSA assets transferred to your estate can be used for up to one year to pay for qualified medical expenses incurred before your death.

Bank of America, N.A. makes available the Health Savings Account as a custodian only. The account beneficiary establishing the HSA is solely responsible for ensuring satisfaction of eligibility requirements set forth in IRC sec 223. If an individual/employee establishes an HSA and s/he is not otherwise eligible, s/he will be subject to adverse tax consequences. In addition, an employer making contributions to the HSA of an ineligible individual may also be subject to tax consequences. We recommend that applicants and employers contact qualified tax or legal counsel before establishing an HSA.

Bank of America Merrill Lynch Health Benefit Solutions does not provide tax, legal, investment or benefits consulting advice. This material should be regarded as general information on health care considerations and is not intended to provide specific health care advice.

Bank of America Merrill Lynch is a marketing name for the Retirement Services business of Bank of America Corporation ("BofA Corp."). Banking activities may be performed by wholly owned banking affiliates of BofA Corp., including Bank of America, N.A. ("BANA"), Member FDIC. Brokerage services may be performed by wholly owned brokerage affiliates of BofA Corp., including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a registered broker-dealer and Member SIPC.

Certain associates are registered representatives with MLPF&S and may assist you with investment products and services. Bank of America Merrill Lynch makes available investment products sponsored, managed, distributed or provided by companies that are affiliates of BofA Corp. or in which BofA Corp. has a substantial economic interest.

Bank of America