

HEALTH SAVINGS ACCOUNTS

AN EFFECTIVE WAY TO MANAGE HEALTHCARE COSTS

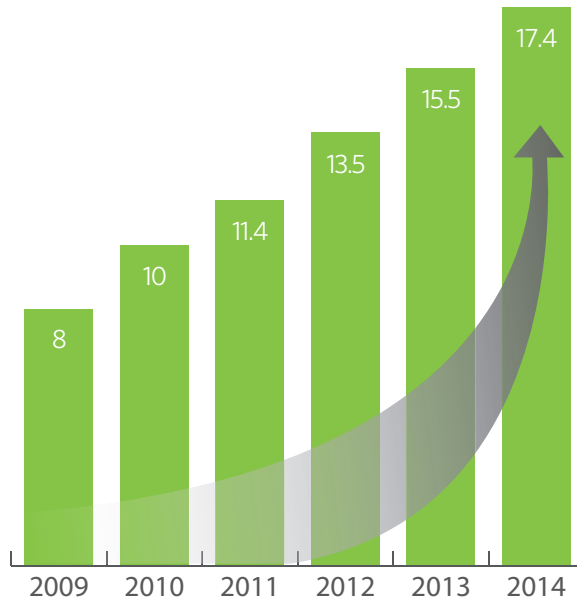


EXPAND YOUR FINANCIAL SERVICES CAPABILITIES WITH PERSHING

- › Open architecture
- › Simplified account management
- › Unbiased perspective
- › Wide selection of solutions

High Deductible Health Plan Enrollment Trends¹

January 2014 (coverage, in millions)



17.4 MILLION AND GROWING

With increasing healthcare costs and reduced coverage by employer-sponsored plans, health savings accounts (HSAs) are expected to continue to increase in popularity.

As of January 2014, approximately 17.4 million people were covered by HSAs or high deductible health plans, more than double the number in 2009.²

WHAT IS A HEALTH SAVINGS ACCOUNT?

HSAs are tax-favored savings and investment accounts that can be used to pay for current or future medical expenses. When used to pay for qualified medical expenses as defined under federal law, HSA withdrawals are exempt from federal income tax. An HSA is a savings and investment account, not an insurance plan. An individual must have a qualifying insurance plan to contribute to an HSA. HSAs enable an individual to pay for current qualified medical expenses or leave the assets in the account to grow tax-deferred to be used for future medical expenses or to supplement retirement income. Demand for HSAs continues to grow as traditional healthcare coverage disappears or increases in cost. Many families choose high deductible health plans to lower their monthly health insurance premiums.

^{1,2} America's Health Insurance Plans (AHIP) Center for Policy and Research, July 2014.

THE BENEFITS OF HEALTH SAVINGS ACCOUNTS

TRIPLE TAX SAVINGS

Health Savings Accounts provide valuable tax benefits to your clients and have the potential to be triple tax free—contributions are pre-tax (either tax deductible by the individual or excluded from income if made by the employer), earnings within the account grow tax-deferred and withdrawals are tax free if used to pay for qualified medical expenses.

Once your client reaches age 65, HSA withdrawals can be made without penalty; however, amounts not used for qualified medical expenses will be subject to income tax. In addition, withdrawals prior to age 65 that are not for qualified medical expenses are normally subject to an early withdrawal penalty, as well as income taxes.

PORTABILITY

HSA accounts are fully portable, which means that the assets continue to retain their tax benefits for the account owner in the event of:

- › Job changes
- › Unemployment or retirement
- › Relocation
- › Change in family or marital status

Your client can also transfer the amount to another HSA custodian in the future, similar to an Individual Retirement Account (IRA).

CONTROL

The account owner makes the decisions about:

- › How much money to contribute (subject to the HSA contribution limits)
- › How the account is invested
- › Which medical expenses the funds should be used for

UNUSED BALANCES

Unlike flexible spending accounts, HSAs are not subject to “use it or lose it” rules. Therefore, any funds that remain in the account from year to year continue to grow tax deferred until withdrawn by the account owner.

OWNERSHIP

Similar to an IRA, the account owner always owns the assets in the account.

REQUIREMENTS TO PARTICIPATE IN AN HSA

- › An individual must be covered by a qualifying high deductible health plan
- › May not have other medical coverage (other than certain types of allowable insurance, such as dental, vision or long-term care coverage)
- › Cannot be claimed as a dependent on someone else’s tax return

AN HSA AND RETIREMENT

An HSA can also be used as a supplementary source of retirement income. Once an individual reaches age 65, distributions from the account for non-medical related items are taxed as normal income. However, unlike an IRA, there are no mandatory age-related distributions from an HSA.

FLEXIBLE ACCESS TO FUNDS

- › HSAs can be used to pay for account owners' qualified medical expenses and also those of their spouses or dependent children, even though these individuals are not covered by the account owners' high deductible health plans
- › After the account owner reaches age 65, funds can be withdrawn without penalty for non-medical expenses
- › The 10% additional federal tax penalty does not apply to distributions after age 65, or due to death or disability

THE FEATURES OF HEALTH SAVINGS ACCOUNTS

CONTRIBUTIONS

- › Employer contributions are tax deductible by the employer and excluded from the employee's income
- › Contributions made by an individual, including the account owner, are tax deductible on the account owner's federal income tax return
- › Catch-up contributions are available to account holders age 55 or older
- › To facilitate funding of HSAs, a one-time trustee-to-trustee transfer of assets is permitted from IRAs, up to the maximum annual contribution

MAXIMUM CONTRIBUTION LIMITS

High-Deductible Health Plan Coverage	2015 Calendar Year
Individual (self-only) coverage under a high-deductible health plan	\$3,350
Individual with family coverage under a high-deductible health plan	\$6,650
Catch up, if age 55 or older	\$1,000

EXPENSES AND WITHDRAWALS

WITHDRAWALS CAN BE TAX FREE

Withdrawals are tax free if they are used for qualified medical expenses (as defined in Section 213(d) of the Internal Revenue Code), including most non-elective surgeries and procedures. Generally, medical expenses that would be deductible will qualify. IRS Publication 515 provides more information on deductible medical expenses.

FUNDS CAN BE WITHDRAWN ANY TIME

Funds can be withdrawn from HSAs at any time. Any withdrawals not used to pay for qualified medical expenses will be taxable. If the owner is under age 65, an early withdrawal penalty may also apply.

QUALIFIED EXPENSES AFTER AGE 65

If the account owner is age 65, Medicare premiums and out-of-pocket expenses, including deductibles, co-pays and coinsurance, are qualified medical expenses for:

- › Part A (hospital and inpatient services)
- › Part B (physician and outpatient services)
- › Part C (medicare HMO and PPO plans)
- › Part D (prescription drugs)

HSA Bank is a national leader of Health Savings Accounts, serving clients ranging from individuals to Fortune 500 companies. HSA Bank provides a comprehensive experience by delivering convenience, education, low maintenance fees, 24-hour access and personal service.

hsabank.com/brokerage

HOW THE ACCOUNT WILL OPERATE:

- › Pershing has arrangements with HSA Bank, an industry-leading HSA custodian that can act as your product sponsor and custodian. Pershing will hold the investment assets that are available through the HSA.³
- › The custodian will have the responsibility for required HSA tax reporting.
- › Your financial organization needs to execute a service agreement with HSA Bank.
- › An additional fee will be charged to your firm for supporting the HSA data delivery download, as per the Schedule A agreement. While Pershing does not impose additional fees on any linked investment account, HSA Bank may charge for custodial and other account related services. Contact HSA Bank for a current fee schedule.

TO OPEN A HEALTH SAVINGS ACCOUNT:

- › Complete the paperwork from the HSA custodian.
- › Open an account at Pershing to hold the assets.
- › Access Pershing's Task Reference, which can be found in the Material Catalog in Resources via NetX360®, for the appropriate procedures.

³ As with other retail brokerage accounts held at Pershing LLC, it is the responsibility of the financial organization and/or the advisor to determine investment suitability.

THE PERSHING ADVANTAGE

HSAs made available through Pershing, a BNY Mellon company, can help you capture additional assets that can be used to meet your clients' health and retirement savings needs.

RELY ON OUR STRENGTH

Pershing has been a leading global provider of financial business solutions for more than 75 years and serves many of the world's most respected financial organizations. Pershing provides state-of-the-art technology, a highly reliable and scalable infrastructure, and a host of innovative products and services. Pershing is committed to the safekeeping, servicing, segregating and reporting of assets held in custody. Our parent company, BNY Mellon, has been in business for more than 230 years and is the world's leading provider of securities services and a top global manager of assets.

- › Pershing has over \$1 trillion in global client assets.⁴
- › Pershing provides clearing and custody in more than 70 markets and execution in over 60 markets globally. Pershing also facilitates the trading and conversion of more than 50 currencies.
- › Pershing has approximately 4,000 employees located in 23 offices worldwide.
- › Our employees hold leadership positions on hundreds of industry committees, boards and task forces.
- › Pershing was named the #1 U.S. Clearing Firm, based on number of broker-dealer clients, for the past five years, according to *InvestmentNews*, August 2014.

To learn more about managing Health Savings Accounts contact your Pershing Relationship or Account Manager.

⁴ As of June 30, 2014.



WE ARE PERSHING. WE ARE BNY MELLON.

Pershing, a BNY Mellon company, and its affiliates provide global financial business solutions to advisors, asset managers, broker-dealers, family offices, financial organizations, fund managers and registered investment advisory firms. A financial services market leader located in 23 offices worldwide, we are uniquely positioned to provide advisors and firms global insights into industry trends, regulatory changes and best practices, as well as shifts in investor sentiment and expectations. Pershing provides solutions—including innovative programs and business consulting—that help create a competitive advantage for our clients.

PERSHING LLC

Pershing LLC provides a broad suite of financial business solutions so advisors and broker-dealers can drive their business forward in a dynamic industry and regulatory environment. We are the #1 clearing firm in the U.S.* and our clients range from full service, institutional and independent firms to self-directed and bank-affiliated broker-dealers and span the globe. With a keen eye on delivering dependable operational support, robust trading services, flexible technology, an expansive array of investment solutions, practice management support and service excellence, our solutions help advisors and firms manage their businesses efficiently and serve their clients effectively. Pershing LLC (member FINRA/NYSE/SIPC) is a BNY Mellon company. To learn more, visit pershing.com.

*Based on number of broker-dealer clients, *InvestmentNews*, 2014.

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