TRIPLE TAX ADVANTAGES OF HSA

If you have a high-deductible health insurance plan, you're likely eligible to open a health savings account (HSA). Similar to flexible spending accounts, these tax-advantaged savings accounts allow you to contribute money to cover your medical expenses. But HSAs have three distinct tax advantages.

TAX-FREE CONTRIBUTIONS

Just like 401(k) contributions, you can make pre-tax payroll deductions to fund your HSA. You'll benefit from having lower taxable income and a generous contribution limit. In 2021, a family can contribute up to $7,200 while singles enjoy a $3,600 limit.

TAX-FREE GROWTH

If your HSA funds are invested in mutual funds, stocks, or other similar vehicles the earnings are tax-free, leaving more money to cover medical expenses. Unlike a flexible spending account (FSA), where contributions don't roll over at the end of the year, money in an HSA can be used in the future. And HSAs don't have required minimum distributions like 401(k) or IRA plans.

TAX-FREE WITHDRAWALS

When your HSA funds are used to pay for qualified medical expenses, these withdrawals are tax-free. Qualified medical expenses include things like office visits, co-pays, dental expenses, vision care and prescription medication for you, your spouse, or your dependents. Just remember you can't use HSA money to pay for medical expenses you incurred before establishing your HSA.

RETIREMENT PLANNING & HSAs

Using an HSA is not only a savvy way to save on taxes; it can help you in retirement. If you contribute to your HSA while not making withdrawals you could accumulate a sizable fund to help cover your medical expenses in retirement. Medicare premiums are a qualified medical expense, so you could use your HSA funds to pay your premiums once you retire.

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