HSAs: 1 Account, 3 Tax Benefits

Are you missing out on the significant benefits of a health savings account?

Healthcare costs continue to rise faster than inflation, which creates a conundrum for employers who offer healthcare to their employees. In recent years, most employers have sought to reduce their healthcare expenses by asking employees to shoulder a greater portion of these higher healthcare costs.

Shopping for Healthcare

High-deductible health plans (HDHPs) have become the vehicle of choice for many employers. For the 2025 calendar year, employees who have an HDHP are responsible for the first $1,650 in medical expenses ($3,300 for a family)[1] before coinsurance kicks in (though some plans have higher deductibles). This encourages employees to shop for healthcare in an effort to reduce their out-of-pocket costs. Enrollment in HDHPs reached 51% in 2023, which illustrates how commonplace they've become.[2]

Health savings accounts (HSAs) were created to help employees pay some of their out-of-pocket healthcare expenses. HSAs can be used for dozens of qualified medical expenses ranging from diagnostic services such as x-rays to prescription medicine (see example list on page 3).

Getting an HSA

You're eligible for an HSA if you're:

a) enrolled in a high-deductible health plan,
b) not eligible for Medicare, and
c) not eligible to be claimed as a dependent.

You and/or your employer can contribute to an HSA through payroll deductions. If your employer doesn't offer an HSA, you can open one yourself. Either way, you'll get a debit card that you can use for copays and prescriptions. Just be aware you'll pay a 20% penalty if the money is spent on anything other than a qualified medical expense.[3]

Key Points

- Health-savings accounts are available for anyone enrolled in a high-deductible health plan.
- HSAs have become a popular way for Americans to save for out-of-pocket medical expenses.
- One of the biggest advantages of HSAs is the tax benefits for account holders.

[1] Source: IRS.
[2] Source: Bureau of Labor Statistics
[3] Source: IRS Publication 969: "Health Savings Accounts and Other Tax-Favored Plans."

How Do You Contribute?

An HSA generally has two separate functions:

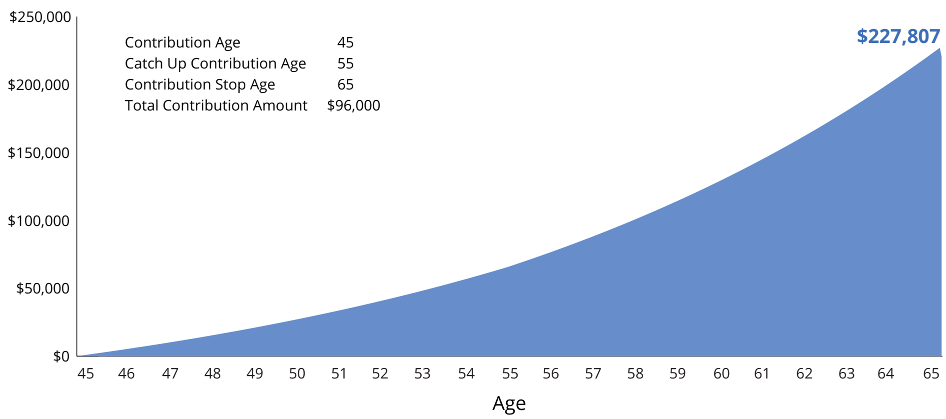
- As an FDIC-insured personal savings account, or
- As an investment account for HSA assets

The IRS limits the amount of pre-tax dollars that can be contributed to an HSA each year. In 2024, the maximum is $4,300 for individuals and $8,550 for families.[4]

In addition, anyone 55 or older can contribute an additional $1,000 catch-up amount. Those approaching retirement can max out their contributions and then invest to build a health-expense nest egg (**FIGURE 1**).

FIGURE 1

Max Out Your HSA Contributions Before Retirement



Hypothetical of a 45-year old single woman who uses an investment account for growth potential instead of an FDIC-insured savings account. She contributes $4,300 for 10 years until age 55 and $5,300 for 10 years until age 65. Assumes monthly contributions, an 8% investment return, and no withdrawals. The hypothetical 8% annual rate is not guaranteed and does not reflect the performance of any particular investment. Actual results will vary. Source: Hartford Funds.

What Are the Benefits?

The main advantages of HSAs are the tax benefits:

- Salary deferrals and employer contributions to HSAs are pre-tax; after-tax contributions (not made via salary deferral) are tax deductible
- The investment earnings on HSAs accumulate tax-free
- Assets can be withdrawn tax-free for qualified medical expenses

If you know you have a big out-of-pocket medical expense on the horizon, you can add funds (up to your limit) into your HSA.

Some employers make contributions to HSAs on behalf of their employees. That amount varies from company to company. Other factors, including whether it's solely for the employee or for the employee plus additional family members, can play a part, too.

It's Not an FSA

An HSA is different than a flexible spending account (FSA). Both allow you to put aside money for healthcare costs, but there are no eligibility requirements for FSAs. The biggest difference is FSAs are "use it or lose it:" Contributions to an FSA must be spent by the end of the calendar year or they're forfeited. HSAs, however, carry over year after year. If you have an HSA, you're not permitted to have an FSA, in most instances.

[4] Source: IRS.gov

You Own Your HSA Forever

If you leave your current job, you can take your HSA along with you. It's your money, which is part of what makes HSAs an attractive way to save for healthcare expenses in retirement. Your HSA will always be there for you.

Going Deeper With HSAs

Understanding the ins and outs of this additional healthcare tool might help you more easily tackle your out-of-pocket spending. Visit HealthCare.gov and IRS.gov for more details on eligibility and limits today.

Talk to your financial professional to learn more about how to make the most of an HSA.

Examples of Qualified Medical Expenses

Acupuncture
Ambulance
Artificial Limbs
Artificial Teeth
Birth Control Pills
Body Scans
Braille Books/Magazines
Breast Pumps and Supplies
Breast Reconstruction Surgery
Car
Chiropractor
Contact Lenses
Crutches
Dental Treatments
Diagnostic Devices
Disabled Dependent Care Expenses
Drug/Alcohol Addiction Treatments
Drugs
Eye Exams
Eyeglasses
Eye Surgery
Fertility Enhancement
Guide Dog or Other Service Animal
Hearing Aids
Home Care
Home Modifications
Insurance Premiums
Lab Fees
Long-Term Care
Nursing Home
Nursing Services
Optometrist
Oxygen
Physical Exams
Pregnancy Test Kit
Prosthetics
Psychiatric Care
Special Education
Special Home for Intellectually and Developmentally Disabled
Surgery
Telephone
Television
Transplants
Transportation
Tuition
Vasectomy
Vision Correction Surgery
Weight-Loss Program
Wheelchair
Wig
X-rays

Visit this link for a full list of Qualified Medical Expenses: https://www.irs.gov/publications/p502