

# HSA Account Basics

## Your Guide to Tax-Advantaged Healthcare Savings



## What is a Health Savings Account?

A Health Savings Account (HSA) is a tax-advantaged savings account designed to help individuals pay for qualified medical expenses. HSA contributions do not have to be spent in the year funded and usually can be invested. This allows the HSA account to grow over time. Since Health Savings Accounts are funded with pre-tax dollars, grow tax-free, and allow tax-free withdrawals for qualified medical expenses, these are the most tax efficient savings vehicles available under the U.S. tax code.

### Who Qualifies for an HSA Account?

- ✓ You must be enrolled in a High Deductible Health Plan (HDHP).
- ✓ You cannot be enrolled in Medicare.
- ✓ You cannot have other health coverage that is not an HDHP.
- ✓ You cannot contribute to a general-purpose FSA (though some limited-purpose FSAs, typically for dental and vision, may be allowed).
- ✓ You cannot be claimed as a dependent on someone else's tax return.
- ✓ Certain VA benefits may impact eligibility.

*Please note that some states, like New Jersey and California, have different tax laws and do not fully recognize the same federal tax treatment for HSAs, so state tax treatment may differ.*

### Why HSAs are Called “Triple Tax Exempt”?

HSAs are often referred to as “**triple tax-exempt**” because they offer three distinct tax advantages:

- 1. Contributions:** Contributions are made with pre-tax dollars, reducing your taxable income. Employer contributions are also tax-free.
- 2. Growth:** Funds within the account grow tax-free. This includes interest, dividends, and capital gains from investments.
- 3. Qualified Withdrawals:** Distributions used for qualified medical expenses are tax-free.

These benefits make HSAs a powerful financial planning tool. However, be aware of the penalties for non-medical withdrawals before the age of 65, as that amount would be subject to ordinary income tax and incur a 20% penalty. After age 65, non-medical withdrawals are taxed as ordinary income, but no longer incur the penalty.

# 2025 HSA & HDHP Contribution & Coverage Limits

To qualify for an HSA, you must be enrolled in an HDHP, which also has specific minimum deductible and maximum out-of-pocket limits.

Category	Contribution Limit	High Deductible Health Plan Details	
		Minimum Deductible	Maximum Out of Pocket Limit
Individual	\$4,300	\$1,650	\$8,300
Family	\$8,550	\$3,300	\$16,600
Catch-Up (55+)	+\$1,000	-	-

## Considerations

- ✓ Unlike Flexible Savings Accounts (FSAs) which are fully funded at the beginning of each year, HSA accounts receive funds only as they are contributed.
- ✓ HSAs are particularly effective for households with minimal expected health expenses. Unspent HSA savings can be invested for long-term medical expenses.
- ✓ Families who can afford to pay medical expenses out of pocket may consider investing their HSA funds rather than spending them upfront.
- ✓ There are no income caps for contributing, making it an excellent investment option for high earners.

## Final Thoughts

HSAs can be an excellent way to save for medical expenses while also enjoying significant tax benefits. They are versatile accounts that allow you to pay for current healthcare needs or grow a tax-advantaged nest egg for future medical expenses. However, they require careful planning to maximize their benefits. If you're considering an HSA, take time to evaluate your healthcare needs, cash flow, and long-term goals.

For more information, stream our podcast episode, '[Maximizing Your Health Savings Account](#)' - available now!



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## Explore Strategies to Maximize Your Savings.

Whether you're new to HSAs or looking to maximize your benefits, our Financial Planning Committee is here to help. Reach out or visit our website to learn more and start maximizing your savings today.



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