



# Saving on Health Expenses and Reducing Future Taxes

## *Understanding the key savings and tax benefits of a Health Savings Account*

A Health Savings Account (HSA) is a type of savings account designed to help individuals and families save money on their health expenses and reduce their future tax bill. To be eligible for an HSA, you must be enrolled in a high-deductible health plan (HDHP), which is a type of health insurance that has a higher deductible but lower monthly premium.

An HSA offers several tax benefits, including tax-deductible contributions, tax-free investment growth, and tax-free withdrawals for eligible medical expenses.

The following are some of the key benefits of an HSA and how you can use it to help reduce your future tax bill.

### **Tax-Deductible Contributions**

One of the primary tax benefits of an HSA is that contributions to the account are tax-deductible. This means that you can lower your tax bill by the amount you contribute to your HSA, up to the maximum contribution limit for the year.

For the tax year 2023, the maximum contribution limit for an individual is \$3,850 and \$7,750 for a family. If you are over the age of 55, you may also be eligible to make catch-up contributions of up to an additional \$1,000 per year.

### **Tax-Free Investment Growth**

Another benefit of an HSA is that any interest or investment growth in the account is tax-free. This means that you can grow your HSA balance without

having to pay taxes on the investment earnings, which can help you build up your savings faster.

### **Tax-free Withdrawals for Eligible Medical Expenses**

When you use the funds in your HSA to pay for eligible medical expenses, the withdrawals are tax-free. This includes expenses such as deductibles, copays, coinsurance, and certain prescription drugs. It is important to keep receipts and documentation of all medical expenses you pay for with your HSA, as you may need to provide proof if you are audited by the IRS.

In addition to the tax benefits, an HSA also provides other benefits, such as:

- **Portability:** An HSA is an individual account, so you own it and can take it with you from job to job.
- **Flexibility:** You can use the funds in your HSA for eligible medical expenses whenever you need them, regardless of the time of year.
- **Cost savings:** Using an HSA can help you save money on your health expenses, as you can use the funds in your HSA to pay for eligible medical expenses that your insurance does not cover.

To maximize the benefits of an HSA, it is important to plan ahead and be strategic in how you use your HSA. The following are some tips for utilizing your HSA to help reduce your future tax bill.

## Make the Max Contribution to Your HSA

Each year, contribute the maximum amount allowed to your HSA to take advantage of the tax savings. Keep in mind that contributions must be made by the tax-filing deadline, which is usually April 15th of the following year (April 18<sup>th</sup> in 2023). If you are over the age of 55, you may also be eligible to make catch-up contributions of up to an additional \$1,000 per year.

## Invest the Funds in Your HSA

If you have a high-deductible health plan, you may have a large balance in your HSA, especially if you have been contributing to it for several years. Consider investing some or all of the funds in your HSA to take advantage of the tax-free investment growth. Many HSAs offer investment options such as mutual funds or ETFs, so you can choose the investment strategy that best fits your goals and risk profile.

## Your Financial Advisor Can Help

Utilizing a Health Savings Account (HSA) to help reduce your future tax bill is a smart and beneficial strategy for individuals and families. With:

- tax-deductible contributions,
- tax-free investment growth, and
- tax-free withdrawals for eligible medical expenses

an HSA provides several tax benefits that can help you save money and achieve your financial goals. Talk to your financial advisor for more guidance.