Save on Taxes

How does the “triple tax benefit” of an HSA work?

An HSA allows you to set aside funds to pay for current and future health expenses. You might be wondering why you wouldn’t just use a regular savings account to do this. Unlike traditional savings accounts, HSAs offer three valuable tax advantages that can save you money and help you invest and grow a health care nest egg.

1. No tax on contributions

- You can reduce your taxable income by contributing to your HSA through pre-tax payroll deductions if your employer offers it or by claiming a dollar-for-dollar deduction for your annual contributions on your tax return.
- You'll never pay federal taxes on your contributions, however some states, including California and New Jersey, tax HSA contributions.

2. No tax on withdrawals

- The money you withdraw to pay for eligible health care expenses is never subject to taxes.
- By using the tax-free funds in your HSA instead of out-of-pocket dollars, you are getting a discount in the amount of your tax-savings on any eligible expenses you spend your HSA dollars on.

3. No tax on earnings

- Any interest you earn on your balance is tax-free.
- You can build tax-free earnings by investing your HSA funds. Some HSA accounts have minimum balance requirements to start investing your funds.

Want to use your HSA as a supplemental retirement account? Go for it!

HSA tax benefits are especially favorable when compared to traditional retirement savings accounts. When you withdraw funds from a 401(k) or IRA you pay income tax regardless of how your funds are spent. With an HSA you do not pay tax on funds withdrawn for an eligible healthcare expenses. Similar to traditional retirement accounts, you can invest your HSA balance and it grows tax free. After age 65, you can withdraw funds from your HSA for non-medical expenses—penalty free—but you’ll still be subject to income taxes on those distributions.