

Tax Benefits Today, Health and Wealth Benefits Tomorrow



Health care expenses are one of the largest costs Americans face, both before and during retirement. One of the most powerful—but often underutilized—tools to manage these costs is the Health Savings Account (HSA). Far more than just a place to park medical dollars, HSAs provide a unique combination of tax benefits and long-term planning opportunities.

What is an HSA?

A Health Savings Account is a tax-advantaged savings vehicle available to individuals and families enrolled in a high-deductible health plan (HDHP). Unlike a flexible spending account (FSA), which is “use it or lose it,” HSAs have no annual forfeiture rules. Funds roll over year to year, making them suitable for both short-term health care costs and long-term financial planning.

Additionally, if you are looking to take advantage of further tax planning opportunities before the end of the year, the HSA is the only account offering three tax benefits:

- **Reduced Taxable Income:** contributions you make to an HSA lower your federal taxable income for the year.
- **Tax-Deferred Growth:** Any interest, dividends, or capital gains earned on the money while in your HSA grows free of federal tax.
- **Tax-Free Withdrawals:** When you withdraw funds for qualified medical expenses, the withdrawals are completely tax-free. **Additionally**, after age 65, you can use HSA funds for ANY purpose. You will pay ordinary income tax on non-medical withdrawals, but you will not pay the 20% penalty that applies to unqualified withdrawals before age 65.

Planning Tip: For 2025, Individual coverage plans allow a maximum contribution of \$4,300. For Family coverage plans that maximum amount

is increased to a total of \$8,550.

Additionally, if you are age 55 or older the IRS allows you to contribute an additional \$1,000.

For 2026, the Individual coverage amount will increase to \$4,400 and \$8,750 for Family coverage. The \$1,000 catch-up contribution will remain the same for individuals age 55 or older.

Contributions Made Through an Employer?

If your employer automatically deducts HSA contributions from your paycheck, they are made with pre-tax dollars. This lowers your taxable income immediately, so you cannot claim these contributions as a separate deduction on your personal tax return.

Contributions Made Directly by You?

If you fund your HSA directly with after-tax dollars (e.g., from your bank account with money which has already had taxes withheld), you can deduct these contributions when you file your tax return. This is an “above-the-line” deduction, meaning you can take it even if you don’t itemize your deductions, by filing the IRS form 8889 with your tax return.

Planning Tip: It is important to remember that the annual contribution limit includes all contributions made to your account, whether they come for you, your employer, or anyone else.

For example, in 2025 if your employer contributes \$1,000 to your individual coverage HSA plan, you can only contribute and deduct an additional \$3,300 when you file.

Planning Tip: Excess contributions above the HSA maximum can lead to a 6% annual excise tax penalty from the IRS on the excess amount, which remains in the account.

To avoid this penalty, you must withdraw the excess contribution (and any earnings from it) by the tax return

deadline, including extensions.
Contact your HSA provider to request a distribution of the excess amount.

Are You Eligible?

To be eligible for a Health Savings Account (HSA), you must be covered by a qualified high-deductible health plan (HDHP), have no other disqualifying health coverage, not be enrolled in Medicare, and not be eligible to be claimed as a dependent on another person's tax return. Your eligibility is determined on the first day of the month, and you must maintain these qualifications throughout the entire year to contribute to your HSA.

Not Sure Whether You Have Individual or Family Coverage?

You can confirm your coverage by checking your HDHP enrollment documents, typically from your employer or health insurance provider, which will specify whether the plan is for self-only or family coverage.

The Bottom Line

HSAs are more than just a way to cover medical bills—they're one of the most flexible and tax-advantaged accounts available. Whether you use it for immediate healthcare costs, invest for the long term, or integrate it into your retirement strategy, an HSA can be a powerful tool for both financial wellness and wealth building.

Always Seek Advice

For more information on how you can optimize the value of your HSA, be sure to obtain advice from a qualified financial advisor or tax professional.

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