LYNCH & Associates
Registered Investment Advisor

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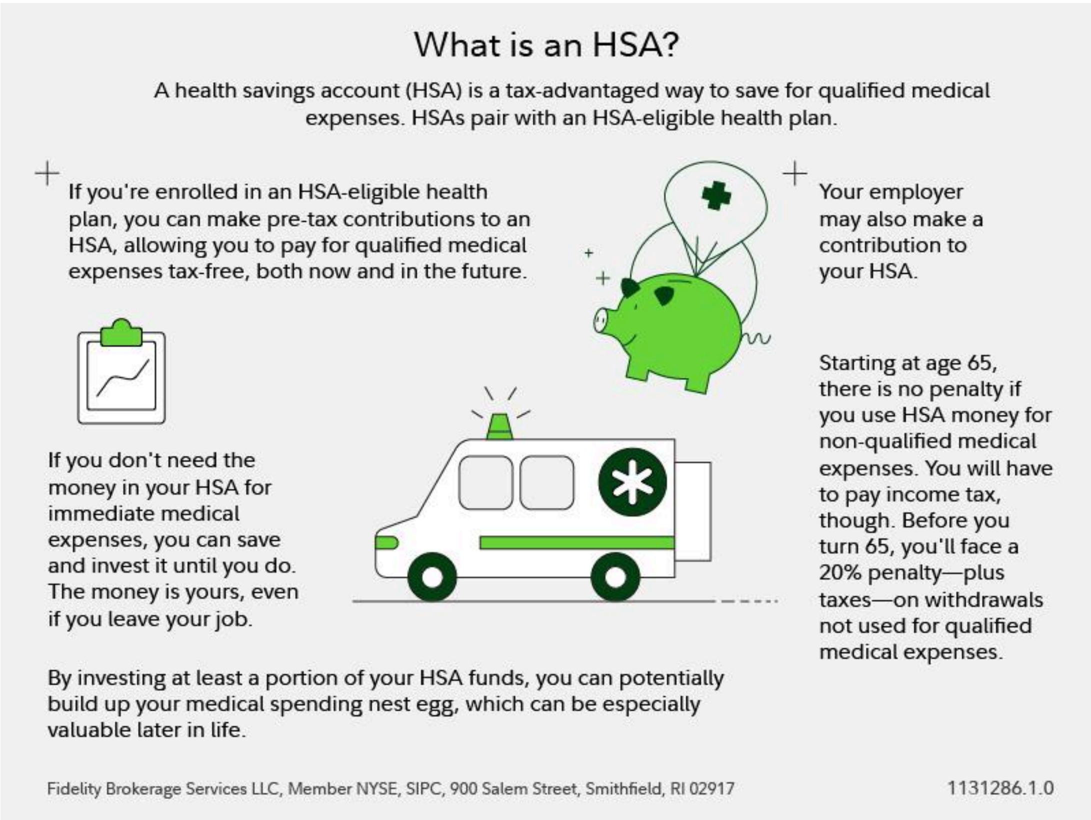
# Are Health Savings Accounts (HSAs) the best investment account?

## How can an HSA benefit me?



HSAs complement HSA-eligible health plans by enabling pre-tax contributions.  If you're enrolled in this type of health plan, you can make pre-tax contributions to an HSA, allowing you to pay for qualified medical expenses tax-free. This can help create a cash cushion to offset the higher deductibles that HSA-eligible health plans typically have. If you don't need the money in your HSA for immediate medical expenses, you can save and invest it until you do. This sets HSAs apart from other popular accounts, such as the health care flexible spending account (FSA). Unlike an HSA, money held in health care, FSA typically must be spent by the end of the plan year in which it's contributed, can't be invested, and can't be carried with you when you leave an employer.

An HSA offers immediate and future financial benefits. It enables you to save pre-tax dollars to cover qualified medical expenses while also serving as a valuable tool for retirement planning.

Unlocking the full potential of HSAs involves understanding their nature. Essentially, an HSA is a tax-advantaged account designed to cover various medical costs, from copays to prescriptions, dental care, and more. Its tax advantages are significant: contributions lower your taxable income, and the funds grow tax-free within the account, regardless of interest or investment gains. Moreover, withdrawals for qualified medical expenses remain untaxed, making HSAs "triple" tax-advantaged. This distinguishes them as even more tax-efficient than conventional retirement accounts like 401(k)s or IRAs.

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Not all individuals are eligible to contribute to an HSA, even if enrolled in an HSA-eligible health plan. To make contributions to an HSA, you must meet the following criteria:

- You cannot be enrolled in a health plan sponsored by your spouse or parent that is not HSA-eligible.
- You cannot be enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's tax return.

## Major Benefits of an HSA

- Contributions are tax-deductible.
- Money can grow tax-free.
- You can have tax-free withdrawals for medical expenses.
- Employers can make contributions to your account.
- Once age 65, you can utilize the HSA like a normal IRA/retirement account but with the benefit of no Required Minimum Distributions (RMDs).
- HSAs don’t have the “use it or lose it” rule like an FSA.
- You can take your HSA with you when you leave an employer.

## Contribution Limits

Contributing to your Health Savings Account (HSA) early and consistently and investing those savings wisely can be a prudent strategy for managing future medical expenses. The contribution limits set by the IRS for 2024 are $4,150 for individual coverage and $8,300 for family coverage. HSA-eligible participants who are 55 or older can contribute an additional $1,000 per year.

It's important to note that you and your employer can contribute to your HSA, but the total contribution from all sources cannot exceed the IRS limit. For instance, if your employer contributes $1,000 to your HSA, you can only contribute up to $3,150 if you have individual coverage in 2024.

Furthermore, your total contribution limit may vary based on factors such as when you enroll in an HSA-eligible health plan and the duration of your enrollment. Additionally, you typically have until the federal tax filing deadline, usually April 15, to contribute to your HSA for the previous tax year. This can provide some flexibility in managing your contributions and tax planning.

By contributing early, maximizing your contributions within the IRS limits, and considering investment opportunities for your HSA funds, you can better position yourself to afford medical expenses in the future while also enjoying potential tax benefits.

## How can LYNCH & Associates help?

If you have questions about opening an HSA or want to discuss whether it is a good strategy for maximizing your wealth, please get in touch with one of our professionals.

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