🏥 What Is an HSA and How Does It Work?

A **Health Savings Account (HSA)** is a **tax-advantaged savings tool** available to individuals with **High Deductible Health Plans (HDHPs)**. It allows you to **save, grow, and spend money tax-free** on qualified medical expenses—and is widely regarded by financial planners as one of the most **powerful tax shelters** available today.

✅ 1. Eligibility Requirements

To contribute to an HSA, you must:

- Be enrolled in an **IRS-qualified HDHP**
  - *2025 minimum deductible:* $1,600 (individual), $3,200 (family)
  - *2025 out-of-pocket max:* $8,050 (individual), $16,100 (family)
- Not be:
  - Enrolled in any other non-HDHP plan (like traditional plans or most FSAs)
  - Claimed as a dependent on another's tax return
  - Enrolled in Medicare

💵 2. Contribution Limits (2025)

- **Individual:** Up to $4,150
- **Family:** Up to $8,300
- **Catch-up (age 55+):** Additional $1,000
- **Tax Benefit:**
  - Contributions through payroll are **pre-tax**
  - Direct contributions are **tax-deductible**

📈 3. Tax-Free Growth & Portability

- **Investment Options:** Most HSAs allow you to invest in mutual funds, ETFs, or similar tools

- **Year-to-Year Rollover:** Funds never expire—**no "use-it-or-lose-it"**
- **Portability:** Your HSA stays with you, regardless of job or plan changes
- **Documentation:** Save all receipts for tax-free withdrawals and audits

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💳 4. Withdrawals: Medical vs. Non-Medical

- **Qualified Medical Expenses:** Tax-free withdrawals for copays, prescriptions, dental, vision, etc.
- **Non-Qualified Withdrawals:**
  - **Before age 65:** Subject to *income tax* **plus a 20% penalty**
  - **After age 65 or if disabled:** Subject to *income tax only* (like a traditional IRA)

🧾 5. Triple Tax Advantage

Financial planners frequently highlight this **unmatched combination**:

1. **Tax-deductible** or pre-tax contributions
2. **Tax-free** growth on interest, dividends, and capital gains
3. **Tax-free** withdrawals for qualified expenses

📊 6. Financial Planner Insights

🔷 Treat it Like a Retirement Account

- If you can afford to pay current medical costs out-of-pocket, allow your HSA to grow tax-free.
- After 65, you can use HSA funds for non-medical expenses with **no penalty**—just regular income tax.

🔷 Long-Term Savings Vehicle

- Unlike FSAs, HSAs **roll over indefinitely**, making them a smart way to build reserves for future healthcare.

🔷 Reduces Taxable Income

- Contributions lower your **Adjusted Gross Income (AGI)**, helping:
    - High earners reduce tax liability
    - Those near a tax bracket threshold stay below it
    - Improve eligibility for deductions or tax credits

🔷 **Caution: Non-Qualified Use**

- **Under age 65**, improper use results in **20% penalty + income tax**
- **After 65**, only income tax applies (no penalty)
- Always **save receipts** for IRS documentation

💡 **Example Scenario**

Jane has a family HDHP and contributes **$7,000** to her HSA in 2025:

- She pays **$2,500** in medical expenses, tax-free
- The remaining **$4,500** rolls over
- She invests **$2,000**, which grows to **$2,200**
  All of this—her contributions, growth, and qualified spending—is **tax-free**