

The Triple Tax Advantage of an HSA

Health care expenses are a growing concern for many—and health savings accounts, or HSAs, are increasingly available to help workers set money aside. But there are tax advantages as well, according to a recent report from the nonpartisan Employee Benefit Research Institute (EBRI).

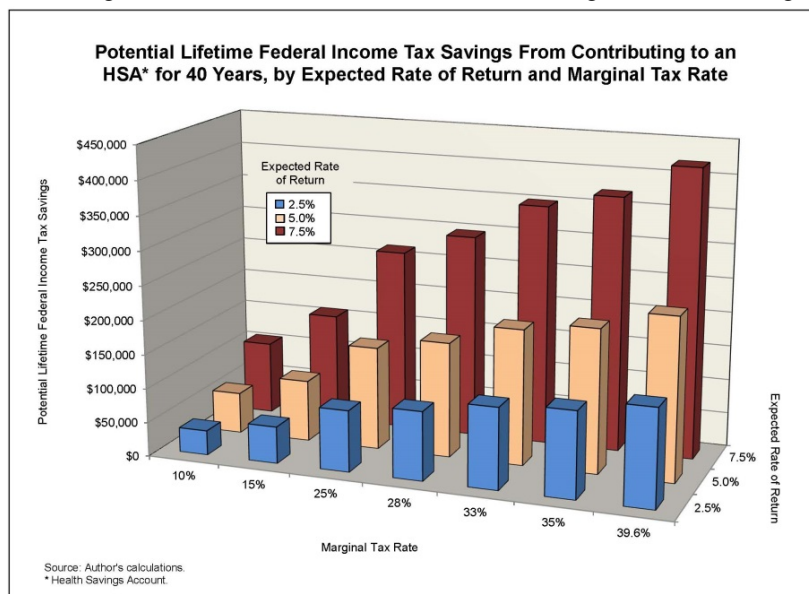
In fact, HSAs offer account owners a triple tax advantage, according to the report:

- Contributions reduce taxable income.
- Earnings on the account build up tax free.
- Distributions for qualified expenses from the account are not subject to taxation.

The tax treatment is different from a traditional retirement savings plan, such as a 401(k) or individual retirement account (IRA), where contributions reduce taxable income but distributions of original pre-tax and employee contributions are taxed along with subsequent investment returns; and also different from a Roth 401(k) or Roth IRA, where there is no tax advantage for the contributions, but the subsequent account growth and distributions are not taxed, so long as certain holding periods are attained.

As a result, the EBRI analysis explains that some individuals might find using an HSA as a savings vehicle for health care expenses in retirement more advantageous from a tax perspective than saving in a 401(k) plan or other retirement savings plan.

However, as the EBRI report explains, there are other factors that should be weighed against these tax advantages, including the potential loss of employer matching contributions to a 401(k) plan, and the need to pay the medical expenses they incur prior to retirement on an after-tax basis using money not contributed to their HSA. The report notes that HSA balances may not be sufficient to pay all medical expenses. The level of savings is, of course, dependent on the individual's tax bracket, rate of return, and level of contribution(s).



The EBRI report, "Lifetime Accumulations and Tax Savings from HSA Contributions" is published as the July 2014 *EBRI Notes*, and is available [online here](#).

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