Understanding Your Pre-Tax Benefits

Pre-tax benefits include all employer provided fringe benefits which are deducted from gross pay before taxes are calculated. Every dollar you pay towards pre-tax benefits reduce your current taxable income by an equal amount. This means, you owe less in income taxes for the year.

Examples of Pre-Tax Benefits include the following:

- Health care premiums
- Contributions to HSA or FSA accounts
- Long-term care insurance
- Disability insurance
- Term-life insurance
- Educational assistance
- Dependent care assistance
- Commuter benefits

Terms

PRE-TAX
Benefits like those listed above that are deducted from your pay before taxes are calculated

TAX-DEFERRED
Earnings, like those in a traditional retirement account, that accumulate tax-free until they are withdrawn

TAX-EXEMPT
Earning, like those in a Roth retirement account, that are exempt to taxes at withdrawal

TAX-ADVANTAGED
Refers to any plan, account, or asset that provides you with a tax benefit

Tax Advantages to Your Retirement Contributions
Your contributions to your company retirement plan – Roth 401(k), 403(b), or 457 plan – as well as contributions to a Roth IRA are made with post-tax dollars. As mentioned above, withdrawals from a Roth account are tax-free as long as the account has been open for at least five years and you're at least 59 ½ at the time of withdrawal.

If you're saving for college expense through a 529 plan, any withdrawal is tax-exempt as long as you're using the money for qualified education expenses, or municipal bonds.

Be sure to contact your financial advisor as well as your tax professional to better understand the best choices for your financial plan.

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Health Savings Accounts (HSA)

An HSA is a savings account attached to an HSA-eligible High Deductible Health Plan (HDHP). The account allows you to save money and make tax-free withdrawals as long as those funds are used for qualified medical expenses. Examples of qualified expenses include, deductibles, copayments, coinsurance, medical supplies, etc.

There are limits to your annual contributions. If you have single coverage, you are able to contribute a maximum of $4,300 in 2025.

There are multiple benefits of an HSA including:

- You are not taxed on money you put into it or on the interest the account earns
- You don't pay tax on withdrawals for qualified medical expenses
- Your account never expires; it stays in the account until you use it
- As long as the money is spent on qualified expenses, it can be used for your spouse and/or dependents
- The money is your even if you switch employers or retire

If you are 55 or older, there is an additional catch up contribution of $1,000. If you have family coverage, your maximum contribution is $8,550 in 2025.

Flexible Spending Accounts (FSA)

HEALTH CARE FSA (HCFSA)
Eligible medical expenses

LIMITED EXPENSE HEALTH CARE FSA (LEX HCFSA)
Eligible dental and vision expenses

DEPENDENT CARE FSA (DCFSA)
Eligible dependent care service for dependents under age 13 or before and after school care

ADOPTION FSA
Allows you to set aside pre-tax money for any adoption expenses

COMMUTER FSA
Pays for employment-related commuter services like transit or parking expenses

Like an HSA, an FSA is used for out-of-pocket medical expenses. Taxes are not paid on these monies. Typically, with an FSA, claims are submitted through your employer with proof of the medical expense, and you are reimbursed for your costs. Be sure to ask your employer how your FSA works and if there are any company contributions to your account. In 2025, employers are limited to a maximum contribution of $3,300.

Unlike an HSA, your FSA needs to be used within the plan year. Any funds not used will be forfeited. Often times, there is an allowed 2 ½ extra months grace period. Check with your employer what your FSA grace period is. Some companies also all a carry-over of up to $660 per year to use the following year.