Delaware Life® | Retirement Education

Maximize employee benefits to help minimize taxes

Everyone likes to reduce their taxes. With tax changes proposed for the highest income earners, it's even more important. Here are some quick tax-saving strategies to consider during open enrollment for employee benefits, which typically starts in October.

You may tend to elect the same benefits every year, meaning you could be missing out on potential tax savings.

1. High-deductible health plan with a health savings account

Many companies offer financial incentives to entice employees to choose a high-deductible health plan (HDHP) with a health savings account (HSA). These plans can make sense for higher-income individuals because contributions to an HSA are tax deductible. If Congress enacts higher taxes for those with over $400,000 in income, that deduction will be even more meaningful. The example on the right shows why.

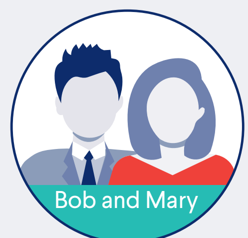
Money in an HSA can be used to pay deductibles, copayments, coinsurance, and other qualified medical expenses. It does not have to be spent each year. Instead, it can be invested to grow tax-free making it a tax-deferred way to save for future health care costs in retirement.

An HSA offers a rare triple tax advantage—tax deduction, tax-deferred growth, and potential tax-free withdrawals. With proposed tax increases, it may be an attractive option. Contributions to an HSA can also reduce your state income tax liability.

2. High-deductible health plan with a health savings account and a limited flexible spending account

A limited flexible spending account (FSA) can be used in conjunction with an HDHP with an HSA and can be a strong one-two punch for high-income earners. A limited FSA can **only** be used for dental and vision expenses. If you need contacts and glasses or have children who need orthodontic services, the limited FSA may be a good option. See example on the right.

Example: High-deductible health plan with health savings account and limited flexible spending account



Earn $500,000

Proposed 39.6% tax bracket

HDHP and HSA	HDHP, HSA, and limited FSA
$7,300 Maximum contribution for family coverage to an HSA for 2022[1]	**$5,500** ($2,750 per person) Maximum yearly contribution to a limited FSA for 2021[2]
$2,890 in tax savings	**$2,178** in tax savings

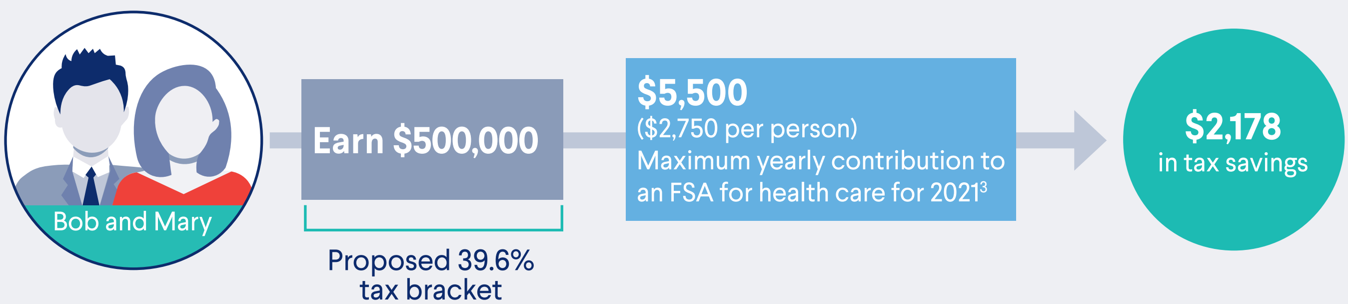
$5,068 in total tax savings

Utilizing a limited FSA has two distinct advantages. First, like the traditional FSA and HSA, contributions are tax deductible. Second, using the limited FSA for dental and vision allows you to leave assets in an HSA, because they don't need to be used each year. This means they have the potential to grow tax deferred for future medical bills. The caveat for the limited FSA is that, like a traditional FSA, it's a use-it-or-lose-it benefit, so you'll want to ensure you can spend your entire contributions within the allowed timeframe.

3. Flexible spending account for health care

If you do not want an HDHP, you can have an FSA for health care. Contributions to an FSA are tax deductible and must be used for qualified medical expenses. The primary difference between an FSA and an HSA is that money in an FSA must be spent every year. It's a use-it-or-lose-it election.

Example: Flexible spending account for health care



Plan ahead

Take time now to review your benefit options versus just choosing the same elections from last year. It could mean some tax savings and help minimize the impact of proposed higher-income taxes. In a potentially rising tax environment, it's also important to look for ways to defer unwanted taxable gains until retirement. Speak to your financial professional to learn about your options.

[1] IRS Revenue Procedure 2021-25, https://www.irs.gov/pub/irs-drop/rp-21-25.pdf

[2] "IRS clarifies relief for FSA carryovers," HRM, Society for Human Resource Management, https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/irs-guidance-clarifies-relief-for-fsa-carry-overs.aspx, 2021 limit. (2022 limits have not been announced by IRS.)

[3] "Using a flexible spending account," HealthCare.gov, https://www.healthcare.gov/have-job-based-coverage/flexible-spending-accounts, 2021 limit. (2022 limits have not been announced by IRS.)

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