

Using Tax-Advantaged Accounts

Think of taxes like tolls on the highway of your savings: Every time your money grows or you withdraw it, a portion may go to Uncle Sam. **Tax-advantaged accounts** are like express lanes—they help your money travel faster by reducing or delaying those “tolls,” keeping more in your pocket for goals like retirement, healthcare, or college.

These accounts aren't get-rich-quick schemes—they're IRS-approved tools for everyday people to save efficiently. This guide breaks down the main types, how they work, benefits, and contribution limits in simple, everyday terms.

What Are Tax-Advantaged Accounts?

These are special savings vehicles where the government gives you tax breaks to encourage saving for specific goals. Instead of paying taxes on every dollar of growth right away (like in a regular bank account), your money can grow sheltered—or even come out tax-free if used properly.

Example: \$1,000 invested at 7% grows to \$1,070 in a year. In a taxable account, you'd lose 20–30% to taxes. In a tax-advantaged account, you keep the full \$70 growth—compounding works faster.

Key goals by account type:

- **Retirement:** IRAs, 401(k)s
- **Healthcare:** HSAs
- **Education:** 529 Plans

Even small contributions add up over time, and maximizing contributions early can supercharge savings. Rules vary, so understanding eligibility and qualified uses keeps things smooth.

Main Types of Tax-Advantaged Accounts

1. IRAs (Individual Retirement Accounts)

Personal retirement savings accounts you open yourself.

- **Traditional IRA:** Contributions are pre-tax, lowering your current tax bill. Growth is tax-deferred, taxed as ordinary income on withdrawal. Good if you expect lower taxes in retirement.
- **Roth IRA:** Contributions are after-tax, but qualified withdrawals (age 59½ + 5-year hold) are entirely tax-free. Ideal if you expect higher taxes in the future or want flexibility.

Eligibility: Anyone with earned income. Roth has 2025 phase-out limits: \$150,000 single / \$236,000 joint.

2. 401(k)s (Employer-Sponsored Plans)

Linked to your job. Contributions are deducted from your paycheck (pre-tax for traditional, after-tax for Roth). Many employers **match contributions** (e.g., 50% up to 6% of salary)—free money! Growth is tax-deferred; withdrawals taxed later. Early withdrawals (before 59½) incur penalties, though loans or hardship withdrawals are possible.

3. HSAs (Health Savings Accounts)

For high-deductible health plan (HDHP) holders. Triple tax advantage:

1. Contributions are tax-deductible
2. Growth is tax-free
3. Withdrawals for qualified medical expenses are tax-free

After 65, non-medical withdrawals are penalty-free but taxed as income—like a supercharged medical IRA.

4. 529 Plans

State-sponsored education accounts for tuition, books, or even K-12 up to \$10,000/year. Contributions grow tax-free, and withdrawals for qualified education expenses are federal tax-free. Some states offer additional deductions. No federal annual limit, but aggregate caps vary by state (e.g., \$235,000–\$550,000 per beneficiary).

Key Benefits

- **Tax Deferral or Exemption:** Traditional/401(k) delay taxes; Roth/HSA/529 make growth or withdrawals tax-free
- **Employer Perks:** 401(k) matches can double your contributions instantly
- **Flexibility:** HSAs roll over forever; 529s let you change beneficiaries
- **Long-Term Growth:** Compounding in a tax-advantaged account adds thousands. Example: \$5,000/year to Roth IRA at 6% for 30 years ≈ \$500,000 tax-free
- **Protections:** Often shielded from creditors; low fees on HSAs/529s

Cautions: Early withdrawals (before 59½ for retirement accounts) trigger penalties and taxes. Non-qualified 529/HSA uses also penalized. Some accounts have income limits.

Real-Life Examples

- **Retirement Saver (Age 35):** Contribute \$23,500 to 401(k) for match, then \$7,000 to Roth IRA. Employer match of 4% adds \$9,400—tax-deferred growth could turn it into a substantial nest egg.
 - **Family with HDHP (Age 45):** Max HSA at \$8,550 family + \$1,000 catch-up if over 50. Use for medical bills tax-free; leftover grows for retirement.
 - **Parent Saving for College:** \$10,000/year to 529 plan grows tax-free for tuition; some states deduct contributions on state taxes.
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Summary

Tax-advantaged accounts—**IRAs, 401(k)s, HSAs, and 529s**—help everyday savers shield money from taxes while building wealth for retirement, healthcare, or education. By understanding rules, contribution limits, and deadlines, you can **maximize growth** and make your savings work harder.

For a deeper, personalized discussion on how these accounts can fit your financial plan, schedule a consultation with **Landis Wealth Management** to learn more.

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