

Health savings accounts: strategic information



Wealth
Management

Health savings accounts (HSAs) offer a unique, tax-free method to save and grow assets to fund the cost of care in the future. Getting the most out of this benefit requires an early start and disciplined investing over time.

HSA basics

A powerful tool

Many employers offer HSAs for employees who select a high-deductible health care plan. These accounts offer a powerful method to invest continually and strategically grow assets to fund health care expenses in the future. Note: anyone with an HSA-qualified health plan can contribute.

Triple tax benefit

HSAs offer a tax-efficient method to build reserves by delivering a rare triple tax benefit.

- Contributions are made on a pretax basis, potentially reducing current taxable income
- Investments grow tax-free for qualifying withdrawals for health care
- Withdrawals for qualified health care expenses are made tax-free

A long-term approach

While many individuals use these accounts to fund their current-year expenses, real value comes as an investment vehicle for the future.

Unlike flexible spending accounts, HSAs permit owners to carry balances across calendar years and invest the assets. By paying for current health care expenses out-of-pocket instead of paying from the HSA, investors are able

to invest and grow balances, building effective resources for the future.

By consistently contributing the maximum annual amount, and investing the balance for future health care costs, one can accumulate a nice tax-free reserve to fund future health care costs. For example, an investment of just \$100 per month over 20 years can turn \$24,000 into over \$56,000 (assuming a 5.5% rate of return).

Limits and restrictions

HSAs have contribution limits that are periodically adjusted by the IRS. For 2026, you are able to contribute up to \$4,400 for individual health coverage or \$8,750 for family health coverage. Like most retirement accounts, there is also a catch-up contribution. Individuals age 55 and older can contribute an additional \$1,000, putting the total family contribution at \$9,750 for families with one member age 55 or older.¹

HSA qualifying expenses

The range of qualifying medical expenses is quite broad and includes most common health care costs. Additionally, funds may be used for insurance deductibles, dental and vision care. When taking distributions from your HSA account to fund care, qualifying withdrawals are 100% tax-free. This includes both the initial contribution and any growth.

Funding your HSA



Salary deferral

Contributions to your account may be made by pretax salary deferral. This can be set up during your annual enrollment period as a simple way to begin to invest pretax dollars.



Direct contributions

Additional and ongoing contributions may be made at any time outside of salary deferral and in most cases may be deducted from taxable income.



Employee incentives

Many employers offer incentives in the form of direct payments to an HSA to encourage participation in health and wellness programming.



IRA rollover

Your account may also be funded via a one-time tax-free rollover from an IRA. The amount of the rollover is limited by annual HSA contribution limits, but this can serve as an effective way to jump-start investing.

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The list of qualifying expenses is expansive and includes:

Medical insurance premiums while unemployed	Doctor's visits
Hospital services	Preventive care
Some long-term care insurance	Eye exams, glasses or contact lenses
Dental care	Hearing aids
Medical devices	Home care
Mental health services	Smoking cessation

Dependents

HSA account balances may be used to fund care for a spouse and/or dependent children. Expenses are allowed for anyone who is eligible to be listed as a dependent on the primary account holder's tax return. Qualified medical expenses for your spouse and dependents you claim on your tax return (assuming they are also covered by your health plan) are eligible for tax-free distribution treatment. It is important to note that even though a dependent is eligible to be covered under your high-deductible health plan, they may not be eligible for tax-free distributions from your HSA if they claim themselves as a dependent on their own tax return.

Timing of payments

All qualifying expenses are eligible so long as the expenses occur after establishing the account. The balance in your account does not have to be large enough to cover the expense at the time it was incurred. In this manner a hospitalization or other large expense can be reimbursed after the fact if an account balance is run to zero but is still being funded.

Age 65 and beyond

Following Medicare enrollment, you are no longer eligible to contribute to an HSA but may continue to fund your care with HSA dollars, including paying for long-term care and Medicare premiums. For added flexibility, seniors are allowed withdrawals from their account for nonqualifying expenses after age 65. These are available without a penalty but will trigger normal income tax.

Unused balance

If an account holder passes away prior to exhausting the balance in their HSA, the surviving spouse is eligible to inherit the account. They may continue to use the balance of the account with the same benefits and restrictions as the account holder. However, if passed on to a nonspousal beneficiary, the benefits will be subject to tax.

**Catching up after a late start**

Even with a late start, a 50-year-old can build a meaningful reserve within an HSA prior to Medicare enrollment. When the maximum amount is invested each year, balances can grow to over \$242,000 in the 15 years prior to Medicare eligibility.

This projection is helped by investment growth of 5.5%.

\$0

HSA balance at age 50

+Maximum contributions
(\$8,750 annually)**+**Catch-up contributions
beginning at age 55
(\$1,000 annually)**+**

Investment growth

=**\$242,000**

Balance at age 65

Take action:

- Review your benefit elections annually, using online tools to project costs
- Consider saving in an HSA and systematically saving the maximum contribution over time to build flexibility for the future
- Leverage the power of time to bolster your resources across all your employee benefits
- Invest unused balances for tax-free growth and to fund qualified health care expenses tax-free in retirement

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1. As Medicare is not considered a high deductible plan, qualified contributions end with Medicare enrollment. If one spouse is not enrolled in Medicare, yet is still eligible for an HSA, they can contribute to an HSA. Rev. Proc. 2020-32, IRS.gov, 2020