Health Savings Accounts

Health Savings Accounts (HSA) are individually owned tax favored accounts that allow individuals to set aside money to pay for qualified medical expenses.

Who is eligible?

An individual must be enrolled in a high deductible health plan (HDHP) to contribute to or establish an HSA and have no other disqualifying coverage. A HDHP has:

- A minimum deductible of $1,700 in for self-only coverage and $3,400 for family coverage.
- Maximum out-of-pocket expense limit of $8,500 for self-only coverage and $17,000 for family coverage.

Individuals generally must not be:

- Enrolled in disqualifying coverage (e.g., general purpose FSA or HRA, access to non-HDHP medical coverage that pays costs before statutory deductible has been met);
- Enrolled in Medicare; or
- Eligible to be claimed as a dependent on someone else's tax return.

Who can contribute to an individual's HSA?

Anyone can contribute to an HSA on behalf of the account holder. However, annual contribution limits apply on an aggregate basis.

How much can be contributed to an HSA?

For 2026, the maximum contribution limit is:

- For individuals with self-only coverage is $4,400.
- For individuals with family coverage is $8,750.
- Individuals aged 55 or older may contribute an additional $1,000 to the above contribution limits.

What are the tax benefits of an HSA?

- Contributions to the HSA may be made tax-free.
- Distributions for qualifying medical expenses are tax-free.
- Investment growth in the HSA is tax-free.

Can employees carry over HSA funds from year to year?

Yes. Generally, once contributions are made to an HSA, they belong to the account holder who can use the funds for any qualified medical expenses incurred after the account was opened.

What are qualified medical expenses?

Generally, qualified medical expenses include the out-of-pocket costs for medical, dental, vision, or prescription drug expenses that are not reimbursed by the plan that are incurred by the account holder or their tax dependent(s). Funds can also be used to pay certain premiums such as COBRA and Medicare Parts B, C, and D.

Is an HSA portable for an employee?

Yes, HSAs are individually owned accounts, which means employees keep their HSAs even if they switch jobs.

What HSA requirements must an employer satisfy?

If an employer is contributing to the employee's HSA through a cafeteria plan, the employer must satisfy Section 125 nondiscrimination rules. All contributions to employee's HSAs outside of a cafeteria plan must be made on a comparable basis to all comparable participating employees.

Comparable contributions must be either:

- The same amount; or
- The same percentage of the annual deductible limit under the HDHP covering the employees.

Comparable participating employees:

- Are covered by an HDHP offered by the employer.
- Are eligible to establish an HSA.
- Have the same category of coverage (self-only or family coverage); and
- Have the same category of employment (generally classes like full-time or part-time).

Can employers offer to contribute to an HSA without also offering a group health plan?

Yes, as long as those employees are eligible to have an HSA.

Is an HSA subject to COBRA?

In most cases, no. However, in very limited circumstances an HSA can be subject to COBRA.

What if funds from an HSA are used for non-qualified expenses?

The individual must report it on their annual income tax filing and pay the related income taxes, plus a penalty.
(After 65, the penalty does not apply.)

How does an HSA work with Medicare?

- If an individual enrolls in Medicare Part A and/or Part B, that individual can no longer contribute pre-tax dollars into their HSA. The month Medicare begins, all contributions to the HSA should be reduced to zero dollars per month.
- Individuals may continue to withdraw monies from the HSA to help pay for qualified medical expenses and the funds will continue to be tax-free.
- If Medicare Part A is delayed, the individual should stop all HSA contributions at least 6 months prior to filing for Medicare benefits as Part A may be retroactive and begin 6 months prior to the month the individual actually applied for the benefits.
- Annual HSA contribution limit is different for HSA account holders that are first eligible to enroll in Medicare mid-year. The annual limit will depend on the number of months the person is eligible to contribute.