

ASSET STRATEGY

Helping You Create, Manage, Protect, & Distribute Wealth®

2026

EVERYTHING YOU
NEED TO KNOW ABOUT
**HEALTH SAVINGS
ACCOUNTS (HSAs)**



Table of Contents

Page 1	Cover
Page 2	Table of Contents
Page 3	What are HSAs and How Do They Work?
Page 4	HSA Contribution Limits
Page 5	Benefits of an HSA (Part I)
Page 6	The Benefits of an HSA (Part II)
Page 7	How to Open an HSA & Conclusion
Page 8	Contact Information



What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a tax-advantaged savings account available to individuals enrolled in a qualifying High-Deductible Health Plan (HDHP). It allows you to set aside money to pay for Qualified Medical Expenses (QMEs).

Contributions are tax-deductible or pre-tax, the balance grows tax-free, and withdrawals used for qualified medical expenses are tax-free. HSA funds roll over from year to year with no expiration, and the account remains yours even if you change employers or health plans.

How HSAs Work

HSAs work alongside an HSA-eligible High-Deductible Health Plan (HDHP). If you are enrolled in a qualifying HDHP, you can contribute pre-tax dollars to an HSA and use those funds to pay for eligible medical expenses tax-free. Contributing to an HSA helps offset the higher deductibles associated with HDHPs and allows you to build long-term, tax-advantaged savings for healthcare.

You can't contribute to an HSA if:

- You're already enrolled in Medicare
- Claimed as a dependent on someone else's tax return
- You are enrolled in a health plan that doesn't qualify for the HSA.
 - (Such as FSAs, HRAs, and any low-deductible or low-out-of-pocket maximums)



Popular Qualified Medical Expenses	Some Non-Qualified Medical Expenses
<ul style="list-style-type: none"> • Prescriptions • Eye exams • Dental cleanings • Braces (orthodontia) • X-rays • Mental health therapy • Doctor visits • Cold medicine (over-the-counter medications qualify) • Antibiotics 	<ul style="list-style-type: none"> • Cosmetic procedures • Childcare • Hair removal/electrolysis • Toiletries • Gym or general clinic membership fees • Weight-loss supplements (unless it's a medical condition) • Food • Missed appointment fees • Soap/toiletries

For the complete list, visit [IRS Publication 502](https://www.irs.gov/publications/p502#en_US_2022_publink1000178975)¹

Using HSA funds for ineligible expenses carries a heavy tax penalty. If you withdraw under 65, you'll pay a **20% penalty** and **income taxes**. If you're 65 or older, you can use HSA money for ineligible costs penalty-free, but income taxes apply.

1. https://www.irs.gov/publications/p502#en_US_2022_publink1000178975 as of 12.12.2024

2026 HSA Contribution Limits

Annually, the Internal Revenue Service (IRS) establishes the upper limit for contributions to an HSA. For example, if the contribution limit for your HSA in 2026 is **\$4,400** and your employer contributes **\$1,000**, your personal contribution can only be **\$3,400**, unless you qualify for an **additional \$1,000** catch-up contribution.

The yearly contribution limit for an HSA is based on your enrollment in either self-only or family coverage, as well as your age if you are 55 or older. 2026 HSA Contribution Limits.

Types of Coverage ²	Contribution Limit	Catch-Up At 55+
Individual	\$4,400	\$1,000
Family	\$8,750	\$1,000

HSA Contribution Limit Considerations

If you are not enrolled in an HSA-eligible health plan for the full year, your allowable contribution may be prorated based on the number of eligible months. However, if you are HSA-eligible on December 1, you may contribute the full annual limit under the IRS “last-month rule,” as long as you remain HSA-eligible for the entire following year (the testing period).³

Here’s how to calculate your contribution:

of months enrolled in HSA eligible plan

(from the first of the month)

12

x Total amount you could contribute if you were eligible for whole year



If you are enrolled in an HSA-eligible health plan by December 1, you may contribute the full annual HSA limit under the IRS last-month rule, even if you were only eligible for part of the year.

If you exceed your allowable HSA contribution, any excess amount may be subject to a 6% excise tax for that year and each following year until the excess (and its earnings) is removed.

2. <https://www.irs.gov/pub/irs-drop/rp-25-19.pdf> as of 5.1.2025
 3. <https://www.irs.gov/publications/p969> as of 1.23.2025

The Benefits of an HSA (Part I)

1

Your Employer May Help Fund Your HSA

Many employers match contributions made to HSAs. For example, did you know that the average annual employer HSA contributions in 2024 was \$705 for individual coverage and \$1,297 for family coverage? ⁴

This is similar to an employer 401(k) plan where you receive a contribution percentage. Keep in mind that you won't get a tax deduction on whatever your employer contributes.

2

You Can Invest Funds In Your HSA

The funds in your HSA can be invested, just like any other investment account. Keep in mind that many HSA administrators require you to have a certain balance before you can invest the funds.

With a HSA account you can invest in different investment vehicles like stocks, bonds, mutual funds and exchange-traded funds (ETFs). Remember that the best option will depend on your risk tolerance and your financial goals.

3

Your HSA Account Is Yours, Not Your Employers

Your HSA account belongs to you, unlike other accounts. If you left your employer, you do not lose any of the money that you have put into an HSA. This money can also be transferred into another HSA at your next job.

You also keep the money even if you retire or change your health insurance plan.



4. <https://www.kff.org/report-section/ehbs-2024-section-8-high-deductible-health-plans-with-savings-option/#figure87> as of 10.9.2024

The Benefits of an HSA (Part II)

4

You Can Deduct Contributions From Taxes

You can deduct contributions you make independently to your HSA from your gross income, reducing your tax bill. Contributions made through payroll deductions are already pre-tax, so they are not deducted again on your tax return.

To report HSA contributions and claim deductions, complete IRS Form 8889 and attach it to your Form 1040.⁵

5

Your HSA Is Not Subject To RMDs

Unlike pre-tax retirement savings accounts like IRAs and 401(k)s, you don't have to worry about withdrawing any funds from your HSA.

Keep in mind that if you do withdraw money from an HSA for any non-medical reasons and you're not 65 or older, you will be subject to taxes on the money you withdraw. You will also face a 20% penalty on the amount you take out.⁶

6

Your HSA May Pay For Some Insurance Premiums

Your HSA can pay for only certain insurance premiums. Here are the situations where HSA funds may be used:

- Coverage while receiving unemployment
- COBRA continuation coverage after leaving an employer
- Employer-sponsored retiree health insurance premiums
 - (only if you are 65 or older)
- Medicare premiums for Parts A, B, and D, as well as Medicare Advantage

Note: HSA funds cannot be used for Medigap premiums, and you cannot contribute to an HSA once enrolled in Medicare.

5. <https://www.irs.gov/forms-pubs/about-form-8889> as of 10.24.2025

6. https://www.irs.gov/instructions/i8889#en_US_2023_publink37971yd0e1611 as of 1.14.2025

How to Open an HSA

Step 1) Ensure Eligibility

To get started with the process, you first need to be enrolled in a high-deductible health plan (HDHP). Make sure you check with your plan provider to see if your HDHP qualifies.

High Deductible Health Plan Requirements ⁷	2026
Minimum deductible for an individual	\$1,700
Minimum deductible for a family	\$3,400
Out-of-pocket expenses maximum for an individual	\$8,500
Out-of-pocket expenses for a family	\$17,000

Step 2) Select an HSA Provider

Selecting your HSA provider requires some research. Some providers include Fidelity, Lively, and HealthEquity. You should consider factors such as fees, investment options, and service. It all depends on what your goals are.

Step 3) Open Your Account and Start Funding

You've chosen your provider and now it's time to open your account. Usually this is done online while providing personal information.

Now that you have your account, start investing in your health!

7. <https://www.irs.gov/pub/irs-drop/rp-25-19.pdf> as of 5.1.2025

Our Final Thoughts

HSAs offer a powerful combination of tax advantages, long-term growth potential, and flexibility. By understanding contribution limits, the types of benefits, and requirements, you can utilize an HSA not only for your financial future, but your health and well-being.



If you have any questions about Health Savings Accounts,
feel free to reach out to our team.

Set up a 15-Minute Discovery Call at:

www.assetstrategy.com/contact

www.assetstrategy.com

781-235-4426

info@assetstrategy.com

Disclosure:

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