

Health Savings Accounts

A Retirement Strategy that's Already Paying off



Overview

For more than two decades, Health Savings Accounts have been one of the most tax-advantaged financial tools available in the American benefits landscape — yet they remain widely underutilized as a long-term savings vehicle. While HSAs were originally designed to help offset the higher out-of-pocket costs associated with High-Deductible Health Plans, a growing body of evidence points to a more powerful use case: retirement savings and planning.

HSAs are financial instruments that function similarly to a personal savings account. Funds deposited into an HSA accrue over time, and account holders are typically provided a debit card to access funds, along with regular account statements. But the similarities to a standard savings account end there.

Unlike a traditional savings account, HSA contributions offer significant tax advantages. Funds contributed to an HSA are tax-deductible, interest and investment earnings grow tax-free, and withdrawals used for qualified medical expenses are never taxed. When contributions are made through employer payroll deduction, the tax benefits extend even further. Payroll contributions avoid Medicare and Social Security taxes, representing a 7.65% tax savings, or approximately \$1 in savings for every \$13 contributed.

HSAs must be paired with a qualified High-Deductible Health Plan, which typically carries lower monthly premiums than other types of health insurance. This means that employees who elect an HDHP and contribute to an HSA are often saving on both their premium costs and their taxes simultaneously.

HSAs are also designed to be easy for employees to use and manage. Account holders have direct control over how and when funds are used for qualified medical expenses, without the need for ongoing verification or extra paperwork. This simplicity makes HSAs more accessible and easier to integrate into everyday financial decisions.



The following sections explore HSAs in depth, covering four key areas:

- Requirements for establishing an HSA
- The unique benefits of an HSA
- How to use an HSA as a retirement savings vehicle
- The long-term growth and investment potential of HSAs



Section 1: Requirements for Establishing an HSA

There are four requirements to establish an HSA:

- An HSA can only be established by an individual enrolled in a qualified High-Deductible Health Plan (HDHP). If enrollment in an HSA-compatible ends, existing funds can still be used tax-free for out-of-pocket medical expenses, but no new contributions can be made.
- An HSA can only be established by a U.S. taxpayer.
- An HSA cannot be established if the individual has “other disqualifying coverage”.
- An HSA cannot be established if the individual is claimed as a tax dependent by another person.

What is an HDHP?

HDHPs are defined by minimum deductible and maximum out-of-pocket requirements, which are adjusted annually for inflation. These thresholds determine whether a health plan qualifies for HSA eligibility.

Here are the minimum deductible and maximum out-of-pocket limits for **2026**:

	Self-Only Coverage	Family Coverage
Minimum Deductible	\$1,700	\$3,400
Maximum Out-Of-Pocket	\$8,500	\$17,000

The single-only and family coverage tiers reflect whether an individual covers only themselves or one or more additional family members under their HDHP. HDHPs also cannot provide coverage for any benefits other than preventive care prior to satisfying the minimum deductible, though HSA funds may be used to pay deductible expenses at the account holder’s discretion.



HSA Contribution Limits

Contribution limits are tied directly to whether an individual has self-only or family HDHP coverage. The maximum contribution can be made each year as long as HSA eligibility is maintained, and there is no cap on how much can be accumulated in the account over time. This gives employees the flexibility to plan contributions according to their healthcare needs, short-term expenses, and long-term savings goals.

Here are the annual maximum contribution limits for **2026**:

Self-Only Coverage	\$4,400
Family Coverage	\$8,750
Catch-Up Contribution	\$1,000

Individuals age 55 and older who meet HSA eligibility requirements may make an additional \$1,000 catch-up contribution annually. Note that this limit is set by statute and is not adjusted for inflation. This extra contribution can help employees accelerate savings as they approach retirement, taking advantage of both tax benefits and potential investment growth.

Other Disqualifying Coverage

As noted, having other disqualifying cover will prevent an individual from establishing or contributing to an HSA. Disqualifying coverage generally refers to non-HDHP major medical coverage, but it can include other plan types as well. Examples of disqualifying coverage include:

- Medicare
- Medicaid
- TRICARE
- HMOs
- Non-HDHP PPOs
- Most FSAs & HRAs

Certain types of coverage are permissible alongside an HSA without affecting eligibility. Examples of these include:

- Dental
- Vision
- Limited Purpose FSAs
- Long-term & Short-term Disability
- Long-term Care
- Critical Illness
- Dental & Vision Only HRAs
- Fixed Indemnity Plans



Section 2: Unique Benefits of an HSA

The unique features of HSAs are what make them a compelling option for long-term savings, and at the center of those features is a tax advantage that no other savings vehicle fully replicates. Most savings and retirement vehicles offer one or two tax benefits. HSAs offer a unprecedented **triple-tax advantage**.

#1 Tax-Free Contributions

HSA contributions avoid federal and state income taxes, which can result in approximately 30% tax savings for employees depending on their tax bracket.¹ When made through payroll deduction, contributions also avoid Medicare and Social Security taxes (FICA), resulting in an additional 7.65% in tax savings for both employees and employers.

#2 Tax-Free Growth

Funds held in an HSA grow tax-free, including interest and investment earnings. Over time, this allows balances to compound more efficiently compared to taxable accounts.

#3 Tax-Free Withdrawals

Withdrawals used for qualified medical expenses are never taxed. This creates flexibility to use HSA funds when needed or allow them to grow for future healthcare expenses, including those in retirement.

This combination of tax-free in, tax-free growth, tax-free out is unique among savings vehicles and is the foundation of the HSA's long-term value.

Additional Features

Beyond tax advantages, HSAs offer a set of features that distinguish them from other health and retirement accounts.

- **Portability.** The HSA belongs to the account holder, not the employer. The account travels with the individual through job changes, career transitions, and into retirement.
- **Investment flexibility.** HSA funds can be invested in most publicly traded investment vehicles, including stocks, bonds, and mutual funds. This gives the account meaningful long-term growth potential beyond simple interest accumulation.
- **No third-party claims substantiation.** Unlike FSAs and HRAs, HSA funds can be accessed without submitting receipts or documentation to a third party. A debit card or check provides direct, immediate access to funds.
- **Unlimited carryover.** There is no "use it or lose it" rule with an HSA. Balances roll over indefinitely, allowing account holders to accumulate substantial savings over time.
- **No cap on accumulation.** While annual contributions are limited by IRS guidelines, there is no ceiling on how large an HSA balance can grow.

Together, these features make the HSA one of the most flexible and tax-efficient savings vehicles available, not just for managing near-term healthcare costs, but for building long-term financial security.

¹ State income taxes apply in California and New Jersey.



Section 3: Using an HSA as a Retirement Plan

The Cost of Healthcare in Retirement

Healthcare is consistently one of the largest and most underestimated expenses retirees face. According to Fidelity's 2025 Retiree Health Care Cost Estimate, a 65-year-old retiring today can expect to spend an average of \$172,500 on healthcare and medical expenses throughout retirement. For a couple, that figure rises to approximately \$330,000, and neither estimate includes the potential cost of long-term care.² These costs are increasing year-over-year. Fidelity's inaugural estimate in 2002 was \$80,000 per individual. The 2025 figure represents more than double the original projection, and the trend continues upward.

HSA funds can be used tax-free for qualified medical expenses at any point, including throughout retirement. This makes the HSA a uniquely effective tool for building a dedicated healthcare savings reserve. But the potential goes well beyond simply covering deductibles and copays.

HSAs Compared to Other Retirement Vehicles

When evaluated alongside other common retirement savings vehicles, the HSA holds up remarkably well. And in one critical way, it surpasses them all.

	Tax-Free Contributions	Tax-Free Earnings	Tax-Free Withdrawals
HSA	✓	✓	✓
401(k)	✓	✓	✗
403(b)	✓	✓	✗
Traditional IRA	✓	✓	✗
Roth IRA	✗	✓	✓

HSA contributions are tax-deductible, just like 401(k) contributions. HSA investment earnings grow tax-free, just like a 401(k). But unlike a 401(k), withdrawals used for qualified medical expenses are never taxed. That triple tax advantage, the only one of its kind, is what makes the HSA such a powerful long-term savings vehicle when used strategically.

It is worth noting that qualified medical expenses include a broad range of costs in retirement: Medicare Part A, B, C, and D premiums, out-of-pocket medical and prescription drug expenses, and dental, vision, and hearing costs. For expenses that fall outside qualified medical categories, HSA withdrawals are subject to income tax and a 20% penalty, but that penalty is waived at age 65. After age 65, non-medical withdrawals are simply taxed as ordinary income, making the HSA function similarly to a traditional 401(k) for non-medical spending.

² The 2025 Fidelity Retiree Health Care Cost Estimate is based on individuals age 65 enrolling in original Medicare. Actual costs will vary based on health status, geography, and longevity.



The Deferred Reimbursement Strategy

One of the most powerful and least understood features of an HSA is that there is no requirement to reimburse a medical expense in the same year it is incurred. An expense paid out of pocket today can be reimbursed from the HSA months, or even decades, later, as long as the account was open at the time the expense occurred and records are maintained.

This creates a sophisticated planning opportunity. By paying current medical expenses out of pocket and allowing HSA funds to remain invested, account holders can accumulate a substantial tax-free reserve. At retirement, those documented expenses become a source of tax-free income.

Consider an account holder who has had an HSA for 25 years and averaged \$3,000 in annual out-of-pocket medical expenses paid from other funds. Over that period, \$75,000 in documented expenses would have accumulated. All of which could be withdrawn from the HSA tax-free at any point, with no time limit on reimbursement.



No Required Minimum Distributions

HSAs have another meaningful advantage over traditional retirement accounts: there are no required minimum distributions. Under current law, owners of traditional IRAs and 401(k)s must begin taking withdrawals at age 73. These mandatory withdrawals can create taxable income at an inconvenient time and complicate retirement planning.

HSA account holders face no such requirement. Funds can remain invested indefinitely, continuing to grow tax-free for as long as the account holder chooses.

The Three-Pronged Retirement Savings Approach

For individuals with access to both a 401(k) and an HSA, financial advisors increasingly recommend a sequenced contribution strategy that maximizes the tax efficiency of both accounts:

1. Contribute enough to the **401(k)** to capture the full employer match.
- 2. Direct any additional retirement savings into the **HSA** up to the annual maximum.
- 3. If the HSA maximum has been reached and additional funds remain available, return to the **401(k)**.

This approach prioritizes the HSA in the second position because its triple tax advantage exceeds what a 401(k) alone can offer for healthcare-related expenses in retirement.

² The 2025 Fidelity Retiree Health Care Cost Estimate is based on individuals age 65 enrolling in original Medicare. Actual costs will vary based on health status, geography, and longevity.



A Practical Example

Consider an individual earning \$70,000 annually who has decided to save 12% of income, \$8,400, for retirement. Their employer offers a 401(k) with a dollar-for-dollar match on the first 4% of salary, and they are enrolled in a self-only HDHP, making them HSA-eligible.

Using the three-pronged approach:

- Contribute 4% (\$2,800) to the 401(k) to capture the full \$2,800 employer match.
- Direct \$4,400 into the HSA – the 2026 self-only maximum contribution.³
- Allocate the remaining \$1,200 back into the 401(k).

The result: \$11,200 working toward retirement savings in a single year, with a large portion shielded by the triple tax advantage.

While this contribution strategy maximizes the immediate tax savings, the ultimate value of the HSA lies in its capacity for long-term, tax-advantaged investment growth.

The Long-Term Impact of HSA Investing

Now, let’s explore how consistent investing can grow HSA balances over time. Even modest, ongoing contributions can grow into meaningful balances when allowed to compound over time.

The table below illustrates how HSA balances can grow over 25 years at a 7% annual rate of return:

Monthly Contribution	Annual Contribution	Balance After 25 Years
\$100	\$1,200	\$75,899
\$200	\$2,400	\$151,798
\$300	\$3,600	\$227,697
\$400	\$4,800	\$303,595
\$500	\$6,000	\$379,494

When combined with a thoughtful contribution strategy, consistent investing can significantly increase the long-term value of an HSA.

³ HSA contribution limits are adjusted annually. Always confirm the current year’s maximum with IRS guidance or a qualified benefits advisor.



Section 4: Long-Term Growth and Investment Potential

A Market Transformed

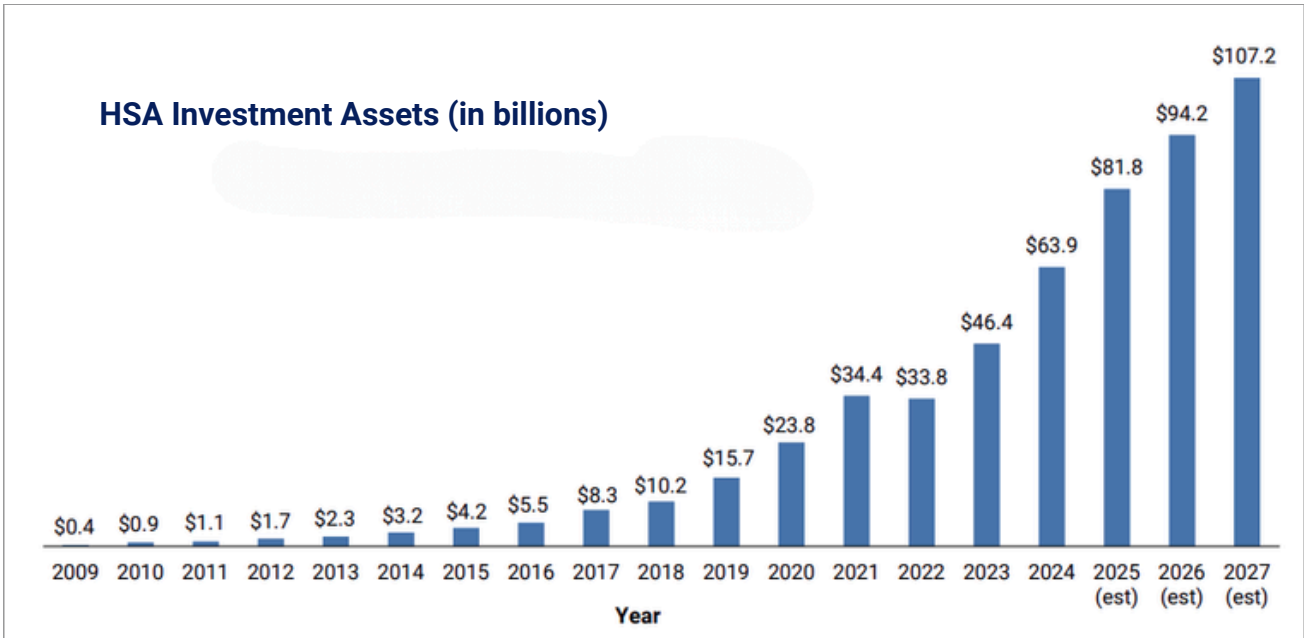
When HSAs were introduced in 2004, they were largely viewed as a spending tool used to set aside pre-tax dollars for out-of-pocket medical costs associated with high-deductible health plans. Two decades later, the data tells a very different story. HSAs have become one of the fastest-growing investment vehicles in the American financial landscape, and the accounts that have been open the longest are now demonstrating what long-term participation actually looks like.

By midyear 2025, total HSA assets reached nearly \$159 billion across approximately 40 million accounts. This represents a 16% year-over-year increase in assets. But this number only tells part of the story. The more significant shift is happening inside the accounts themselves.

From Spending Accounts to Investment Accounts

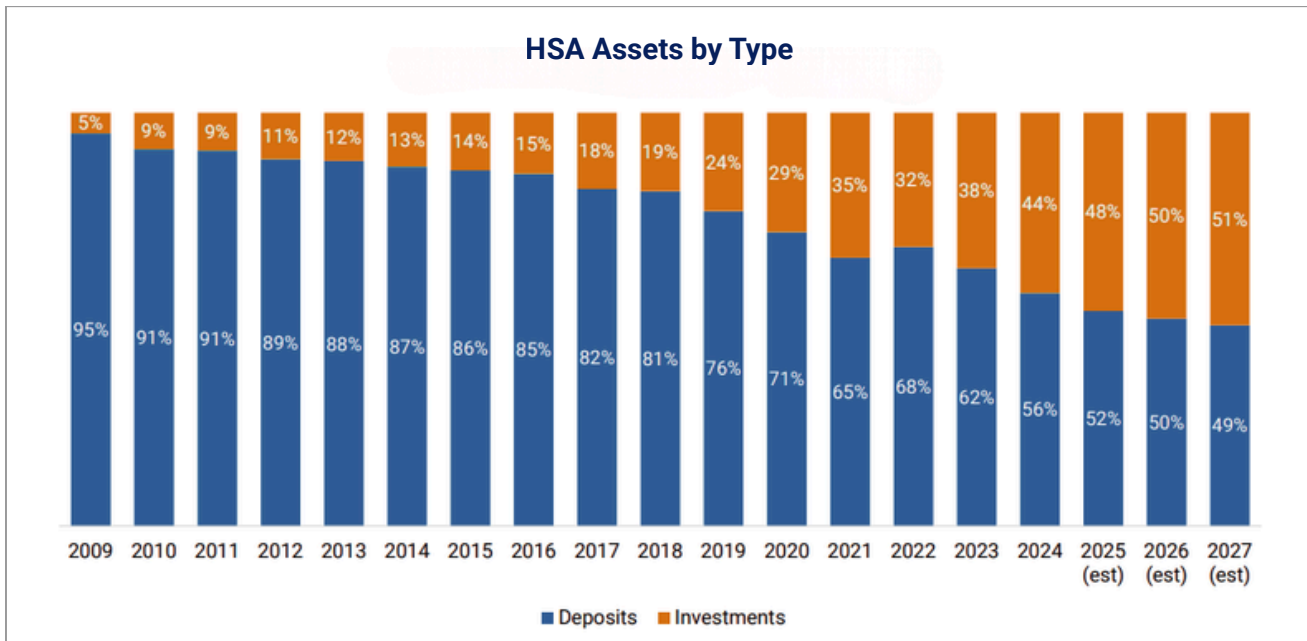
In 2009, investments represented just 5% of all HSA assets. The remaining 95% sat in cash deposits. By midyear 2025, that ratio had shifted dramatically. Investments now account for 46% of all HSA assets, with investment balances alone reaching nearly \$73 billion, a 30% year-over-year increase. Devenir projects that by 2027, investment assets will account for more than half of all HSA assets for the first time in the market's history.

This is not a minor shift. It reflects a fundamental change in how people are using their HSAs. They are now being seen less as a reimbursement mechanism and more as a long-term wealth-building vehicle.



Source: Devenir, 2025 Midyear HSA Market Statistics & Trends Executive Summary



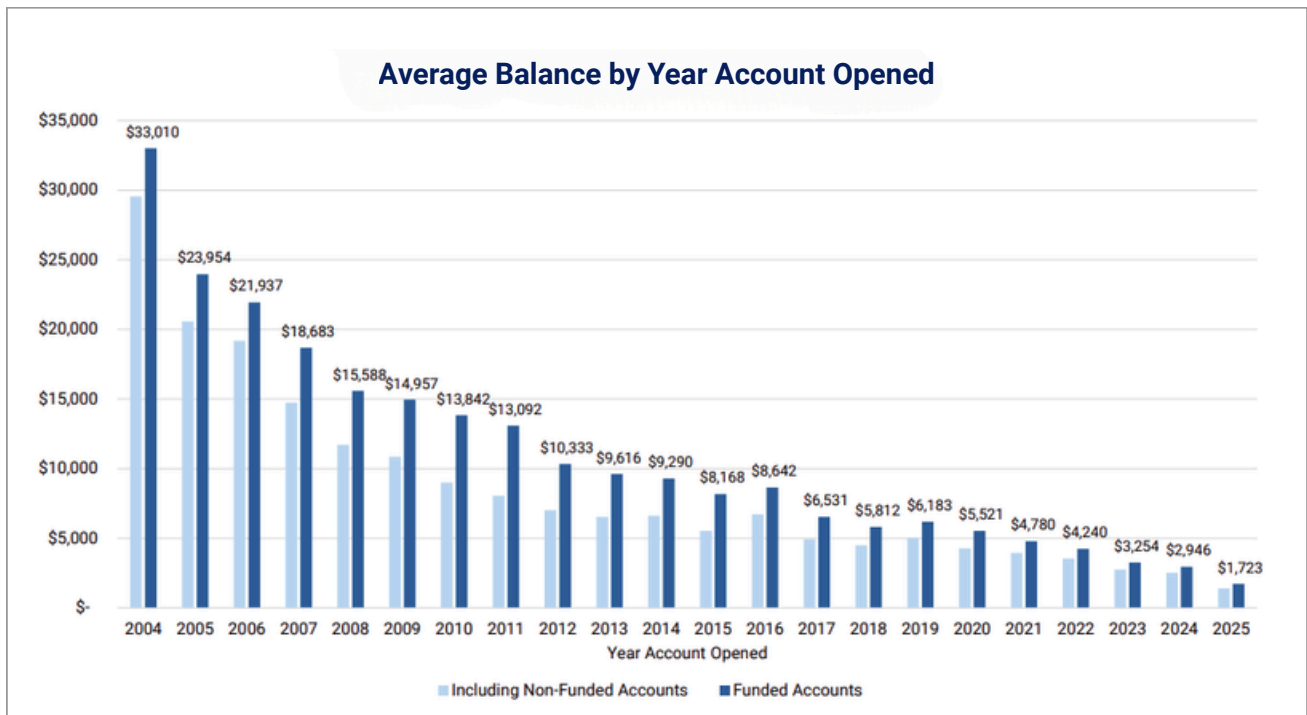


Source: Devenir, 2025 Midyear HSA Market Statistics & Trends Executive Summary

The Compounding Effect of Time

The accounts that have been open the longest tell the most compelling story. According to Devenir, HSA accounts opened in 2005 carry an average investor balance of over \$66,000. Accounts from 2010 average around \$46,000. Even accounts opened in 2015 average more than \$29,000. By contrast, accounts opened in the first half of 2025 average just over \$12,000.

The pattern is consistent and clear. Time in the account is the single biggest driver of balance growth, and investment returns are the engine behind it. An HSA investor account today carries an average total balance of \$22,635, which is nine times larger than the average funded account with no investments.



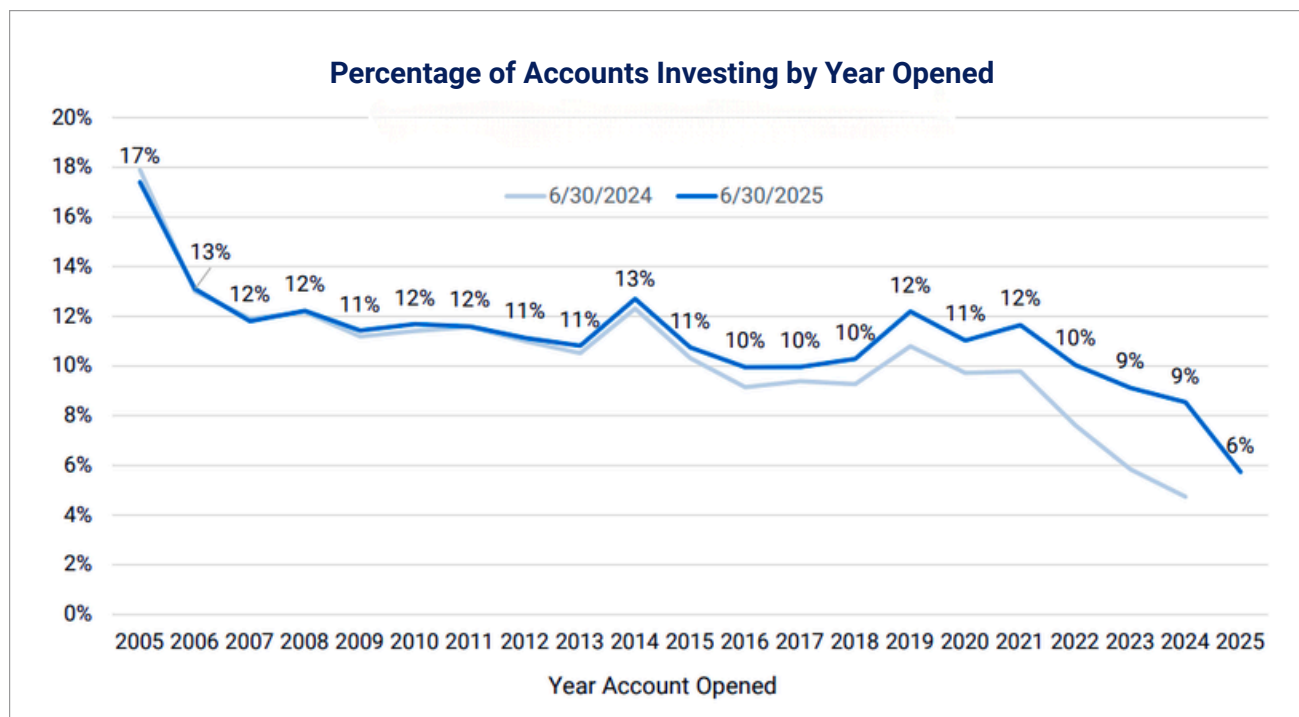
Source: Devenir, 2025 Midyear HSA Market Statistics & Trends Executive Summary



Who is Investing?

Roughly 10% to 17% of accounts from any given year are currently invested, and that rate is relatively stable regardless of when the account was opened. The difference is the amount of time those investments have had to compound. About 4 million HSAs, roughly 10% of all accounts, held at least some of their balance in investments as of midyear 2025, and the number of investing accounts grew 23% year-over-year.

Notably, 65% of all HSA investors opened their accounts since the start of 2020, yet those newer accounts hold only 51% of total investment assets, underscoring how much of the investment value is concentrated in older, longer-tenured accounts.



Source: Devenir, 2025 Midyear HSA Market Statistics & Trends Executive Summary

The Knowledge Gap

Despite the compelling long-term data, awareness remains a significant barrier. According to Fidelity's 2025 research, only 15% of Americans ages 55 to 64 have an HSA, and among that group, more than half do not know that an HSA can be used as a retirement savings vehicle. Meanwhile, one in five Americans admits to never having considered healthcare costs during retirement at all.

This knowledge gap represents a meaningful opportunity. The accounts that were opened early and managed strategically are now producing outcomes that validate the long-term thesis. The challenge is making sure that case is clearly communicated to employees and individuals before years of potential compounding are left on the table.



Looking Ahead

The HSA market is still growing. Devenir projects the market will surpass 47 million accounts and \$208 billion in assets by end of 2027. And starting in 2026, new tax legislation is expected to extend HSA eligibility to approximately 10 million additional Americans who previously did not qualify. Account growth is steady, but the bigger story is what is happening with the money already in these accounts. The investment side of the HSA market is where the real momentum is, and the data shows that trend is still picking up speed.

Summary

Twenty years of HSA market history clearly shows what strategic, long-term participation in these accounts can produce. But there is still a wide gap between the way most account holders use their HSAs and what is possible.

For benefits consultants and plan sponsors, that gap is the opportunity. Offering an HDHP with an HSA is the necessary first step, but it is not sufficient on its own. The accounts that are generating the most meaningful long-term outcomes are the ones where enrollment happened early, contributions were made consistently, and the investment option was utilized. Plan designs and employee education that encourage all three of those behaviors will create the most value for employees.

The HSA was built for the long game. The accounts opened in 2004 and 2005, which are now approaching their third decade, prove that case with balances that would have seemed unlikely when HSAs were first created. The same outcome is available to every eligible employee who starts today.



About Flex

Since 1988, Flex has been helping employer groups and benefits consultants across the United States get the most out of their employee benefits programs. Headquartered in Chicago, Illinois, Flex is a full-service Third Party Administrator specializing in consumer-driven spending accounts, including HSAs, FSAs, HRAs, Lifestyle Spending Accounts, and Commuter Plans, as well as compliance services such as COBRA and Direct Bill Administration, Premium Only Plans, Wrap Documents, and Non-Discrimination Testing.

Unlike financial institutions that offer HSAs as a peripheral product, Flex brings nearly four decades of dedicated employee benefits expertise to every client relationship.

That expertise shows up in how we serve our clients. Flex maintains a 96% client retention rate and a 94% customer satisfaction rate, and nine out of ten clients would recommend us to another organization. Every client and consultant has access to a dedicated support team with an average tenure of eight years. No ticketing systems, no chatbots. Just knowledgeable people who are easy to reach and ready to help.

Want to explore HSA strategies for your clients? Reach out to a Flex Sales Consultant today.

