

# The Complete HSA Guidebook

How to make Health Savings Accounts work for you

## 2026 Edition

Updated to reflect recent health policy and tax changes

Stephen D. Neeleman, M.D.

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## Foreword

We began writing the first edition of The Complete HSA Guidebook a few months after new legislation allowed the creation of the first Health Savings Accounts (HSAs) on January 1, 2004. In the 20+ years since then, people have developed an understanding of and appreciation for this important health benefit. Millions of people use HSAs, not only to pay for immediate healthcare needs with tax-free dollars, but also to save for healthcare expenses in retirement. According to Devenir Research's 2024 Year-End HSA Market Statistics & Trends, Americans hold nearly 39 million HSAs, containing over \$146 billion in funds.<sup>1</sup>


We founded HealthEquity in 2002. As this edition goes to print, HealthEquity members have saved more than \$33 billion dollars and nearly 10 million HSAs.<sup>2</sup> Our team of 3,100 HSA enthusiasts remains committed to helping more and more Americans understand and use HSAs to protect themselves against unexpected healthcare expenses. The more we study the effects of HSAs, the more we believe they make it possible to “save and improve lives” by empowering healthcare consumers, which has become our mission.

We intend to make HSAs as common as retirement accounts—because of their tax savings and their potential to lower overall healthcare expenditures for both consumers and businesses.

HealthEquity focuses on helping employers and their employees manage out-of-pocket healthcare costs, which continue to increase every year. We believe that leveraging HSAs is the best way to make excellent healthcare coverage available to businesses and consumers, to save taxes, and to reduce healthcare premium costs. We will continue to work with businesses and legislative leaders to increase access to HSAs so that every American can effectively manage their out-of-pocket health costs.

As our company grows, I remain amazed at the passion and commitment that our teammates exhibit as they build relationships with and provide remarkable service for our members, clients, and partners. As a result of their skill and expertise, we have grown to be the largest HSA custodian, by number of accounts, in the United States. On behalf of our entire team, I hope this publication helps you understand HSAs and encourages you to consider opening one—or to better manage the one you already have.

Sincerely,



**Stephen D. Neeleman, M.D.**

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HealthEquity, Inc. is a publicly traded (NASDAQ: HQY) non-bank custodian of Health Savings Accounts (HSAs).

This publication provides a general explanation of HSAs—not legal, financial, or tax advice. As always, consult your own legal, tax, and financial advisors for the best advice tailored to your specific needs.

HSAs are never taxed at a federal income tax level (when used appropriately for qualified medical expenses) and are seldom taxed at the state level. Please consult a tax advisor to learn your state’s specific rules.

HealthEquity bases its opinions and its decisions on sound research and data and recognizes that readers’ experiences with HSAs may vary.

Examples, results, and calculations included in this publication serve illustrative purposes only. In this edition, we cite the Internal Revenue Code (IRC) and have made every effort to ensure accuracy. Even so, we cannot guarantee the accuracy or currency of all citations. Report errors or direct questions and comments to [HSAGuidebook@healthequity.com](mailto:HSAGuidebook@healthequity.com).

1. 2024 Year-End Devenir HSA Research Report (released 4/2/25).
2. [HealthEquity 2025 Annual Report](#)

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# Introduction

## Overview

Imagine a savings account that allows you to make tax-advantaged deposits. As the account increases in value, your earnings remain untaxed—even if you invest the funds. In addition, you pay no tax on money you use for qualified medical expenses.

Only a Health Savings Account (HSA) provides this “triple-tax” benefit. At no point, from earning to spending (for qualified medical expenses), do the funds in your HSA incur either federal or most state income tax.<sup>1</sup> Other retirement saving plans, such as traditional IRAs, Roth IRAs, and 401(k)s, generally apply taxes either to contributions or withdrawals.

## Health Savings Account benefits

### Individuals

Because HSAs provide more tax advantages than any other savings vehicle in the United States today, you should learn how to become eligible to open one—to help reduce your tax burden, protect yourself against rising medical costs, save for unexpected healthcare expenses, and increase your retirement savings.

You own your HSA. This means HSA funds automatically roll over every year and the account becomes part of your estate upon death. Or the account can transfer to your spouse as an HSA.

HSAs provide flexibility (you can use the funds before and after you retire) as well as more tax advantages than retirement accounts. If you contribute to an IRA or 401(k), you don't pay tax on your contributions, but you do pay taxes on the funds you withdraw during retirement (your original contributions plus account earnings). For a Roth IRA or Roth 401(k), you pay tax on the money

you contribute, but you don't pay tax on distributions (including account growth).

If you have a health Flexible Spending Account (FSA), you contribute and spend pretax dollars, but may lose funds you have not spent at the end of the plan year, unless your employer offers a limited carryover or grace period feature.

Only HSAs provide the flexibility of a retirement savings plan but with a triple-tax benefit: you make pre-tax contributions, your account grows and earns interest free of federal income tax (and free of income tax in most state taxes), and your distributions (when used for qualified medical expenses) also remain tax-free. In addition, you can invest your HSA funds which, while riskier, increases the potential for tax-free growth.

Because of these significant tax savings, the Internal Revenue Service (IRS) limits who can contribute to an HSA. Only individuals covered by an HSA-qualified health plan (sometimes called high-deductible or consumer choice health plan, or a bronze or catastrophic level plan through an Affordable Care Act exchange) may open or contribute to an HSA. An HSA-qualified health plan must meet government-mandated limits on minimum deductibles and maximum out-of-pocket expenses. These requirements, along with contribution limits, change slightly from year to year.

A few other restrictions exist:<sup>2</sup>

- You may not have other health coverage (except certain permitted coverage)
- You may not be enrolled in Medicare
- No one can claim you as a dependent for tax purposes

In addition to the significant tax benefits HSAs provide, they can encourage more choice and flexibility than traditional healthcare and help individuals manage chronic illness by encouraging the development of more knowledgeable and engaged healthcare consumers. To the extent that individuals better manage their health, they are rewarded by tax-free growth of unused contributions in their HSA.

## **Employers**

HSA-qualified health plans provide a means of controlling ever-rising

healthcare costs without impairing employees' access to high-quality healthcare. Besides saving money on overall premium costs, employers also reduce their tax burden because they do not pay taxes on the money they or their employees contribute to their employees' HSAs.

## **Healthcare**

HSA-qualified plans provide financial incentives to individuals both to manage medical expenses and to take a more active role in healthcare decisions—especially decisions concerning medications, tests, and procedures. The fact that HSA owners can pocket the money they save (for example, when choosing in- or out-of-network providers or facilities) encourages participants to become careful healthcare consumers who demand and receive better value for their healthcare dollars—increasing overall benefits to consumers, competitive pricing, and responsible consumption.

## **Organization**

This publication has three sections to help you easily find the information you need.

**Section 1** explains foundational terms and concepts. It also describes HSAs in depth and then steps back to provide context about how HSAs compare to and interact with other consumer-driven healthcare products.

**Section 2** provides an owner's manual for HSAs—everything you need to know to wisely use this important savings vehicle to meet your present and future financial and healthcare needs—presented in an easy-to-read, sequential format.

Topics include:

- Opening an HSA
- Contributing to an HSA
- Spending HSA funds
- Saving and investing HSA funds

**Section 3** helps you set up a recordkeeping system, explains the paperwork you will receive, and provides information for employers who want to make HSAs available to their employees.

By strategically contributing to your HSA and other retirement accounts, you can reduce your tax burden and increase financial stability in your retirement years. According to the latest retiree healthcare cost estimate by Employee Benefit Research Institute (EBRI), a married couple with average prescription drug expenses enrolled in Medigap will need approximately \$366,000,<sup>3</sup> on average, to pay for their medical needs in retirement.

Employees of all ages should consider making HSAs a part of their overall retirement and healthcare strategy. It's never too early or too late to save for healthcare expenses now and into retirement. Young people just starting their careers have the potential to save hundreds of thousands of dollars to help meet financial objectives. On the other hand, those close to retirement who may have recently discovered the usefulness of an HSA still have time to take advantage of the many benefits HSAs offer.

Choosing an HSA-qualified health plan may require you to make some changes in the way you think about and use healthcare, but you do not have to compromise the quality of the healthcare you receive.

For us to provide the best possible resource for exploring this important savings option, please help us to help you. If you find a typographical or content error, please let us know by sending an email to [HSAGuidebook@healthequity.com](mailto:HSAGuidebook@healthequity.com).

# Summary

HSAs provide a triple-tax benefit: tax-advantaged contributions, tax-free account growth, and tax-free distributions (if used for qualified medical expenses). Other health savings and retirement savings vehicles offer only one or two of the three tax advantages. Health Savings Accounts are also your money—they are personally owned, portable, and investable.

- Restrictions on who can contribute to an HSA include:
  - No impermissible healthcare coverage
  - No Medicare
  - Not included as a dependent on someone else's tax return
- An HSA-qualified health plan solves several important health-coverage-related problems, besides making pretax funds available to pay consumers' qualified out-of-pocket medical expenses:
  - Provides more choice and flexibility than traditional healthcare
  - Helps manage expenses associated with chronic illness
  - Develops more knowledgeable and engaged healthcare consumers. As individuals take more control of their health and reduce healthcare spending, HSA balances grow, creating rewards for better health
  - Benefits employers by helping reduce their tax burden
- HSAs benefit healthcare in general by increasing consumer awareness—especially by encouraging comparison shopping and research.

## Resources

1. Note that California and New Jersey tax HSA contributions.  
(<https://www.ncsl.org/research/health/hsas-health-savings-accounts.aspx>)
2. IRS Publication 969
3. EBRI Issue Brief March 2025 ([Projected Savings Medicare Beneficiaries Need for Health Expenses Continued to Rise in 2024](#))

# Chapter 1

## Definitions and Explanations

### Chapter overview

This chapter defines and explains foundational concepts used throughout the rest of the publication. Consider marking this chapter so you can refer to it as you read. In addition, take a moment to glance at the glossary in APPENDIX A to see explanations for other health insurance and tax-related terms. Finally, make a note of the chart at the end of this chapter, which compares government-mandated contribution limits for various types of accounts—for last year, this year, and next year, where available. Later digital versions will be released online updating these limits as they become available.

The terms and concepts in this chapter will help you understand the unique benefits of Health Savings Accounts (HSAs) and enable you to compare the features of various types of health plans.

As mentioned previously, to open and contribute to an HSA, you must meet the following Internal Revenue Service (IRS) requirements:

- You must have coverage under an HSA-qualified health plan on the first day of the month in which you open (or make an initial or ongoing contribution to) an HSA<sup>1</sup>
- You have no other health coverage (except certain permitted coverage)<sup>2</sup>
- You are not enrolled in Medicare
- No one claims you as a dependent for tax purposes<sup>3</sup>

These requirements apply only to your eligibility to open and contribute to an HSA. They do not apply to your eligibility to maintain the account, earn tax-free interest and investment dividends, or distribute money from the account for qualified medical expenses. You can keep, grow, and spend all the money in the account, even if you leave your employer, lose your qualifying coverage, or obtain other impermissible coverage<sup>4</sup>.

# Health coverage terms

## Deductible

HealthCare.gov defines a deductible as the amount of covered expenses that you must pay before your health plan starts to pay. Some services, such as preventive care, may not be subject to your deductible. (For more information, see the “First-dollar coverage” section later in this chapter). This deductible typically resets or starts over every plan year.

The plan year may align with the calendar year (January 1 to December 31) or refer to some other 12-month period that your employer or insurer chooses. Some plans allow deductibles to accumulate for more than 12 months. (See the “Carry-over deductible” section later in this chapter).

HSA-qualified health plans must adhere to statutory limits for both minimum deductible and maximum out-of-pocket expenses. These limits may change year to year, based on changes in the Consumer Price Index (CPI). The Internal Revenue Service (IRS) typically announces changes in May or June before the change takes effect the following tax year.<sup>5</sup>

### HSA-Qualified Health Plan Guidelines | 2026

Minimum annual deductible		Out-of-pocket maximum	
Single	Family	Single	Family
≥\$1,700	≥\$3,400	≤\$8,500	≤\$17,000

### Embedded deductible

Some HSA-qualified health plans provide an embedded deductible. In such plans, when an embedded individual deductible equals or exceeds the statutory minimum family deductible, the plan qualifies for an HSA.<sup>6</sup> In other words, even though you have family coverage, if you meet the individual embedded deductible for one family member under such a plan, you have met your entire deductible for the family.

If either the deductible for the entire family or the deductible for an individual family member fails to meet the minimum annual deductible for family coverage

allowed by the IRS (shown in the previous table), then the plan does not qualify for contributions to an HSA.

**EXAMPLES: Embedded deductible**

Elliott has family health insurance coverage for 2026, with an annual deductible of \$3,500 and an individual deductible (or embedded deductible) of \$1,500 for each family member.

The plan does not qualify as an HSA-qualified health plan because the deductible for an individual family member falls below the minimum annual deductible of \$3,400 for family coverage in 2026.<sup>7</sup>

Sheela's family health insurance coverage for 2026 has an annual deductible of \$6,000 and an individual deductible (or embedded deductible) of \$3,400 for each family member.

Sheela's plan qualifies as an HSA-qualified health plan, because the deductible for an individual family member equals the minimum annual deductible of \$3,400 for family coverage in 2026.<sup>8</sup>

**Carry-over deductible**

Some health plans allow expenses that applied to a previous deductible to apply (carry over) to the new policy when the plan year resets. Usually, the carry-over deductible applies to expenses incurred at the end of the plan year during a certain period (usually three months before the plan year ends).<sup>9</sup>

Carry-over deductibles provide an added benefit when expenses occur late in the year, though in some circumstances, they may cause your health plan to lose its HSA-qualified status.

The required minimum deductibles for HSA-qualified coverage are annual requirements (that is, based on a 12-month period). IRS Notice 2004-50 confirms, however, that a deductible carryover provision (for example, a provision allowing expenses incurred during the last three months of the prior plan year to count toward the current year's deductible) will not prevent a plan from being an HSA-qualified health plan, so long as the required minimum annual deductible used to determine whether the plan is HSA-qualified is proportionately increased to account for the fact that expenses incurred over more than 12 months may be used to satisfy the plan's deductible.

To calculate the adjustment, multiply the applicable required minimum annual deductible for self-only or family HSA-qualified health coverage by the number of months allowed in which to satisfy the deductible, then divide the resulting amount by 12. For the plan containing the deductible carryover provision to be an HDHP, the annual deductible under the plan must be equal to, or greater than, the adjusted required minimum annual deductible. The adjusted HSA-qualified health plan required minimum deductible cannot exceed the applicable (self-only or family) maximum out-of-pocket expense limit.<sup>10</sup>

Because the deductible includes more than 12 months, recalculate the IRS minimum deductible limit to extrapolate what deductible limits would allow your plan to remain HSA qualified.

Annual Deductible x (# months in plan ÷ 12)

#### **EXAMPLE: Carry-over deductible**

Matt has a plan that allows him to include expenses from 15 months (a three-month carry-over) to satisfy the deductible. Instead of the minimum annual deductible listed in the previous table, Matt's health plan must satisfy the following calculated amounts to qualify Matt to make HSA contributions.

- Individual policy minimum deductible for 2026:  
 $\$1,700 \times (15/12) = \$2125$
- Family policy minimum deductible for 2026:  
 $\$3,400 \times (15/12) = \$4,250$

## **Copayments vs. coinsurance**

“Copayment” refers to the fixed-dollar payment a patient makes for each doctor visit, treatment, test, prescription, etc. For example, you might pay \$25 for an office visit or \$50 for an x-ray.

“Coinsurance” is the percentage of a medical expense which the patient pays. For example, after meeting the deductible, you might pay 20% of your in-network medical expenses until you reach your out-of-pocket maximum for the year.

## **Out-of-pocket maximum**

The out-of-pocket maximum is the upper limit of your financial exposure for

care during any given plan year. The ACA limits the out-of-pocket maximum for in-network care, but any care provided out-of-network may be subject to a higher or even an unlimited out-of-pocket maximum.

With HSA-qualified health plans, the amounts you pay for in-network deductibles, copayments, or coinsurance (but not insurance premiums) contribute toward your out-of-pocket maximum.<sup>11</sup> Whether out-of-network charges also contribute toward the out-of-pocket maximum can vary by plan.

Once you reach your plan's limit for the year, your health coverage pays all additional in-network, qualified expenses, regardless of the plan's usual copayment or coinsurance arrangements.

Remember, the maximum out-of-pocket expense limit often applies only to in-network care. Health plans may require higher out-of-pocket limits for out-of-network care. For more information, see the "Networks and discounts" section later in this chapter. If a plan has separate out-of-pocket maximums for each family member, the sum of these limits must be equal to or less than \$17,000 in 2026.

**EXAMPLE: Out-of-pocket maximum**

Tricia has a deductible of \$1,700 and an out-of-pocket maximum of \$3,000.

Tricia pays all covered medical expenses until she meets her \$1,700 deductible, after which her plan agrees to split the bill 80/20. The plan pays 80% of covered medical expenses after the deductible, and Tricia pays 20% in coinsurance.

If Tricia has additional qualified expenses after she reaches her deductible, she pays 20% of those bills until she spends another \$1,300 out of her own pocket. Again, these limits might not include out-of-network or non-covered expenses.

When her total spending for qualified expenses reaches \$3,000 (her out-of-pocket maximum), her health plan pays 100% of the rest of her covered medical expenses for that plan year.

**EXAMPLE: Multiple out-of-pocket maximum limits<sup>12</sup>**

Dean, Laurie, and their two children have a family plan. Their plan defines each family member's in-network, out-of-pocket maximum as \$3,000 (thus,

\$12,000 for the entire family), after which the plan pays 100%.

Because the IRS defines the HSA-qualified health plan out-of-pocket maximum per family as \$17,000 in 2026, their plan qualifies them to make contributions to an HSA.

$$4 \times \$3,000 = \$12,000$$

$$\$12,000 < \$17,000$$

However, if they had four children, their plan would not qualify because the maximum out-of-pocket limit exceeds the legal maximum.

$$6 \times \$3,000 = \$18,000$$

$$\$18,000 > \$17,000$$

## Preventive care

### First-dollar coverage

Your insurance company may cover some of your medical costs, especially for preventive care and some chronic condition treatments that the IRS considers “preventive care,” without cost-sharing or at no cost to you and before you meet your deductible.

The Patient Protection and Affordable Care Act (PPACA) requires all new group health plans and plans in the individual market to provide coverage for preventive services, including immunizations, preventive care for infants, children, and adolescents, and preventive care and screenings for women without cost sharing.

The definition of preventive care that applies to HSA-qualified health plans generally excludes any service or benefit intended to treat an existing illness, injury, or condition. However, on July 17, 2019, the IRS and Health and Human Services expanded the list of preventive services that health plans may include without cost sharing—without jeopardizing HSA qualification.<sup>13</sup>

This expanded list includes specific treatments for some chronic conditions, such as congestive heart failure, asthma, diabetes, and depression.<sup>14</sup>

Because employers and health plans have some discretion about which