



2026 HSA GUIDE

*An Overview of
How HSAs Work*



Introduction to Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is like a 401(k) for healthcare. It is a tax-advantaged personal savings or investment account that you can use to save and pay for qualified healthcare expenses, now or in the future.

Paired with a qualified high deductible health plan (HDHP), an HSA is a powerful financial tool that empowers consumers to be more actively involved in their healthcare decisions.

However, unlike other financial savings vehicles (Roth IRA, Traditional IRA, 401K, etc.), an HSA has the unique potential to offer triple tax savings through:

- Pre-tax or tax-deductible contributions to the HSA.
- Tax-free interest or investment earnings.
- Tax-free distributions, when used for qualified medical expenses.

Employees can contribute to the HSA up to the annual maximum.

Tax-free withdrawals can be made to pay for qualified healthcare expenses incurred by you, your spouse, children and other dependents.

HSAs are portable, which means that you keep your HSA and can take it with you if you ever leave the company.

Also, since the account is owned by you, there is **no “use-it-or-lose-it”** provision, like with a Flexible Spending Account (FSA). Instead, unused contributions roll over each year, with interest and/ or investment earnings compounding on a tax-free basis, like an IRA or 401(k). HSAs offer the potential for long-term, tax-free savings that can be used for future healthcare expenses, such as Medicare premiums and certain long-term care insurance.

HSA Principles

- You must be enrolled in a High Deductible Health Plan, to open or contribute to a Health Savings Account (HSA).
- You are in charge of your HSA funds, making you and your doctor the decision makers.
- There is no time limit as to when you can reimburse yourself for your healthcare expenses; you just need to keep legible receipts and records in case you are audited.
- You can choose to spend your HSA funds as qualified medical expenses as incurred or to save your HSA funds for retirement. After age 65 (or if you’re disabled), funds can be drawn for non-qualified expenses without being subject to the 20% penalty.
- IRS Publication 502 provides a list of most allowable HSA expenditures.
- You will be responsible for reporting contributions made to your HSA and for reporting distributions from your HSA. You must determine whether HSA distributions are taxable or whether they are used for qualified medical expenses and not subject to taxation. You must maintain records sufficient to show that distributions that you do not report as taxable were made for qualified medical expenses. HSA contributions and distributions are reported on Form 8889, which is filed as an attachment to your Form 1040.
- Please see Table A and B of this document for a partial and summary list of allowable (tax-free) and non-allowable (not tax-free) expenditures from your HSA.

Eligibility Rules

- You must be in an HSA-qualified high deductible health plan.
- You cannot be covered by any other health insurance that reimburses you for health expenses you incur, unless it is another HSA-qualified HDHP. If a family has all its members covered under two HSA-qualified HDHPs, or some family members are on one qualified plan and the other family members are under another qualified plan, the maximum annual contribution to the account remains in force. Just because you have coverage with two HSA-qualified HDHPs does not mean you can double your HSA contribution.
- For those covered by two HSA-qualified HDHPs, it is a violation of the coordination of benefit rules to be paid by each plan for the same expense.
- Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) may make you ineligible for an HSA unless they are: (1) “limited purpose” (limited to dental, vision child care or preventive care) or (2) “post-deductible” (pay for medical expenses after the plan deductible is met). HRAs that set aside money only for retiree health expenses are also acceptable as are ones that are suspended.
- If you are enrolled in Medicare or Medicaid, you cannot open an HSA.
- Tricare (military healthcare) does not currently offer an HSA-qualified HDHP. Therefore, if you are on Tricare, you cannot have an HSA.
- If you have received any Veterans Administration benefits for non-service related conditions, or receiving certain Indian Health Services (IHS) currently and within the past three months, you cannot have an HSA. Receiving IHS services for dental, vision, well baby, and preventative care does not disqualify you from contributing to an HSA.
- If you are Medicare eligible and are not enrolled in Medicare, you can open or contribute to an HSA if you have an HSA-qualified HDHP.
- You cannot establish separate HSA accounts for your minor dependent children.
- You do not have to have earned income from employment to have an HSA.
- Unlike an IRA, there are no income limits to having an HSA.
- You do not have to itemize your deductions on your federal income taxes to deduct your contributions to an HSA.
- You can open an HSA and also have specific disease or illness, accident, disability, dental care, vision care, and long-term care insurance, and be enrolled in Employee Assistance, disease management, drug discount, and wellness programs.

Health Care Reform (HCR) Notes

Your adult children may be covered on our health plan until the end of the year in which they turn age 26, with no other restrictions such as tax dependency, age, residency or marital status.

However, IRS rules state that your HSA dollars can only be used for IRS qualified expenses incurred by you, your spouse or your tax dependents.

If the adult child does not qualify as a tax deduction, your HSA funds cannot be used for their medical expenses.

The good news is that unmarried adult children who have coverage under a parent’s family HDHP may be eligible to open their own HSAs. They may open the account at the financial institution of their choice. Anyone may fund the account to pay for their medical expenses incurred while covered under the HDHP, but the account holder will receive the tax credit.

Contribution Rules

- You must have an HSA-qualified plan to open or contribute to an HSA. If you no longer have an HSA-qualified HDHP, you cannot contribute anymore, but you can maintain and spend the funds in your account.
- **The maximum annual contributions for 2026 are \$4,400 for single coverage and \$8,750 for family coverage.**
- As long as you are enrolled in an HSA-qualified plan for the last full month of the year, you can make a full HSA contribution for that year, but you must remain enrolled in an eligible plan for the entire following calendar year.
- **Individuals 55 and older can make additional “catch-up” contributions of \$1,000 annually until they enroll in Medicare.** If you did not have HDHP coverage for the full year, you must pro-rate your “catch-up” contribution.
- If you have a family plan with multiple deductibles, you cannot deposit more into the HSA than the maximum amount allowed for family coverage. For example, a family of three with a \$4,000 per person deductible cannot deposit \$12,000 into their 2026 family HSA; rather, the maximum contribution is \$8,750.
- If you become covered by a HDHP in a month later than January, you can make full contributions for the preceding months up to January. If, however, you fall out of qualifying insurance coverage (for reasons other than death or disability), all the months of HSA contributions for which you are not eligible are includible in your gross income and you face a 10% additional tax.
- You can deposit funds into your HSA in a lump sum or in any amounts or frequency you wish.
- Rollovers from an Archer Medical Savings Account (MSA) into a HSA are allowed if completed within 60 days of withdrawing the funds.
- If you have contributed an amount into your HSA which exceeds your maximum allowable deposit, you may withdraw the excess amount and any earnings on the excess amount prior to April 15th of the following year without paying a tax penalty. However, you must pay income tax on your excess contributions and income tax on any earnings of the excess contribution.
- If you enroll in Medicare you should stop your HSA contributions 6 months prior to enrolling in Medicare. Applications that are filed within 6 months after the first month of eligibility are retroactive to the first month or if after 6 months back to the first month of the application filing.

Spending Rules

- There is a wide range of allowable tax-free HSA expenditures, including vision and dental expenses, and, for example, braces for your children. A description of eligible HSA expenditures can be found in IRS Publication 502, and is located at the web at: www.irs.gov/pub/irs-pdf/p502.pdf.
- If a distribution from your HSA is used for purposes other than a qualified medical expense, then the amount withdrawn is subject to both income tax and a 20% penalty, unless the person who makes such a withdrawal from their HSA is over the age of 65. If that person is over the age of 65, then only normal income tax would apply.
- Withdrawals that were made for what the HSA owner thought were qualified medical expenses, but turned out not to be, can be returned on or before April 15th of the year following, if there is clear and convincing evidence that the expenditure was a mistake of fact.
- Other qualified expenses from an HSA include out-of-pocket healthcare expenses while enrolled in Medicare (including Medicare premiums).

- Deductibles, coinsurance and co-pays but not “Medigap”), employee share of health insurance premiums for employer-based coverage (for employees over age 65 only), premiums for COBRA continuation health insurance coverage from a former employer, premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code, and medical services provided in other countries.
- Long-Term Care Insurance that is guaranteed renewable; not provided for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed; that restricts refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract, must be used only to reduce future premiums or increase future benefits; and that generally does not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.
- Everyone with an HSA must keep their receipts showing their expenditures. There are two key reasons to do this: (1) if you exceed your deductible, you may need the receipts to send to your insurer, and (2) in case you are audited by the IRS, you need to explain your HSA expenditures.
- You may use funds from your HSA to reimburse expenses from a previous year, but only if you had an HSA at the time the expenses were incurred.
- HSA funds cannot be used to pay for health insurance premiums unless the individual is receiving federal or state unemployment benefits.

Table A: Common Non-Allowable HSA Expenses

Advance Payment for Future Medical Expenses	Athletic Club Membership
Automobile Insurance Premium	Babysitting (for healthy children)
Boarding School Fees	Bottled Water
Commuting Expenses for the Disabled	Controlled Substances
Cosmetics and Hygiene Products	Dancing Lessons
Diaper Service	Domestic Help
Electrolysis or Hair Removal	Funeral Expenses
Hair Transplant	Health Programs at Resorts, Health Clubs, & Gyms
Household Help	Illegal Operations and Treatments
Illegally Procured Drugs	Maternity Clothes
Medigap premiums	Nutritional Supplements
Premiums for Life or Disability Insurance	Premiums for Accident Insurance
Premiums for your HSA-qualified health plan	Scientology Counseling
Swimming Lessons	Teeth Whitening
Travel for General Health Improvement	Tuition in a Particular School for Problem Children

Table B: Common Allowable HSA Expenses

The list below shows some commonly allowed HSA expenses. This is not all inclusive. For a complete list, please refer to the IRS Publication 502, located at the web at: www.irs.gov/pub/irs-pdf/p502.pdf.

Acupuncture	Alcoholism Treatment	Ambulance
Artificial Limb	Artificial Teeth	Bandages
Prescription Birth Control	Breast Reconstruction Surgery (mastectomy)	Car Special Hand Controls
Certain Capital Expenses (for the disabled)	Chiropractors	Christian Science Practitioners
COBRA premiums	Contact Lenses	Cosmetic Surgery (trauma or disease)
Crutches	Dental Treatment	Dermatologist
Diagnostic Devices	Disabled Dependent Care Expenses	Drug Addiction Treatment (inpatient)
Drugs (prescription)	Eyeglasses	Fertility Enhancement
Guide Dog	Gynecologist	Health Institute (prescribed)
H.M.O. (certain expenses)	Hearing Aids	Home Care
Hospital Services	Laboratory Fees	Lasik Surgery
Lead-Based Paint Removal	Learning Disability Fees (prescription)	Legal Fees (if for mental illness)
Life-Care Fees	Lodging (for out-patient treatment)	Long-Term Care (medical expenses)
Long-Term Care Insurance (To limit)	Meals (associated with receiving treatments)	Med Conferences (ill spouse/dependent)
Medicare Premiums	Medicare Deductibles	Nursing Care
Mentally Retarded (specialized homes)	Obstetrician	Nursing Homes
Operations - Surgical	Operating Room Costs	Optician
Ophthalmologist	Organ Transplant (including donor expense)	Optometrist
Orthopedic Shoes	Orthodontics	Osteopath
Orthopedist	Over-the-Counter Medicines (if prescribed)	Medicare Out-of-pocket expenses
Pediatrician	Oxygen and Equipment	Podiatrist
Personal Care Services (for chronically ill)	Prenatal Care	Post-Nasal Treatments
Prosthesis	Prescription Medicines	Psychiatric Care
PSA Test	Psychoanalysis	Psychiatrist
Psychologist	Psychoanalyst	Radium Treatment
Qualified Long-Term Care Services	Special Education for Ill/Disabled Children	Smoking Cessation Programs
Spinal Tests	Specialists	Sterilization
Splints	Telephones and Television for Impaired	Surgeon
Therapy	Transportation Expenses for Health Care	Vitamins (if prescribed)
Vaccines	Wheelchair	Weight Loss Programs
X-Rays	Wig (hair loss from disease)	



This benefit summary prepared by



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This document is an outline of the coverage proposed by the carrier(s), based on information provided by your company. It does not include all of the terms, coverage, exclusions, limitations, and conditions of the actual contract language. The policies and contracts themselves must be read for those details. Policy forms for your reference will be made available upon request.

The intent of this document is to provide you with general information regarding the status of, and/or potential concerns related to, your current employee benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, nor is it intended to provide, legal advice. Questions regarding specific issues should be addressed by your general counsel or an attorney who specializes in this practice area.