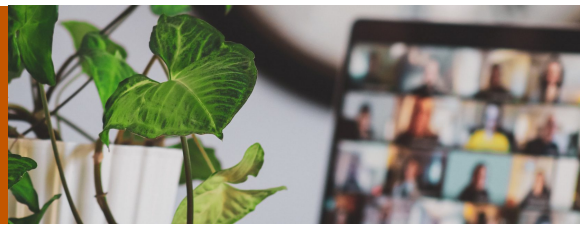
The Benefits of HSA Accounts

NOVEMBER 11, 2026 | BY: EMILY ANGELLI



As year-end planning approaches, Health Savings Accounts (HSAs) are worth considering for eligible individuals and families. For those who can pay current medical costs from other funds, an HSA can be especially valuable as both a tax-planning tool and a source of long-term healthcare savings.

Key benefits include:

- **Tax-deductible or pre-tax contributions.** Contributions may be made on a pre-tax basis through an employer or may generally be deductible when made directly by an eligible individual, directly reducing Adjusted Gross Income (AGI) dollar-for-dollar. Contributions made through an employer's cafeteria plan may also avoid federal payroll taxes.
- **Tax-free growth.** Interest and investment earnings within an HSA can grow federal income tax-free.
- **Tax-free withdrawals for qualified medical expenses.** Funds used for eligible healthcare expenses can generally be withdrawn without federal income tax.
- **No "use it or lose it" requirement.** Unlike many Flexible Spending Accounts (FSAs), unused HSA balances carry forward from year to year.
- **Long-term planning opportunities.** HSA funds do not have to be spent immediately. Depending on the provider, they may be invested and accumulated to help cover healthcare costs later in life.
- **Additional flexibility after age 65.** Before age 65, nonqualified withdrawals are generally subject to ordinary income tax plus an additional 20% tax. Once you reach age 65, the additional tax no longer applies, although nonqualified withdrawals remain subject to ordinary income tax.

Together, these features give HSAs a unique triple tax advantage: pre-tax or deductible contributions, tax-free investment growth, and tax-free withdrawals for qualified medical expenses.

The Strategy: Maximize, Invest, and Preserve Receipts

1. Maximize annual contributions. For 2026, the HSA contribution limits are $4,400 for self-only coverage and $8,750 for family coverage. Individuals age 55 or older may contribute an additional $1,000. Employer contributions count toward the annual limit.

2. Consider investing the balance. If you do not need the HSA for current medical costs, consider maintaining any required cash balance and investing the remainder through the options available from your HSA provider. Investment choices, fees, minimum cash thresholds, and risk vary by provider.

3. Pay current expenses from other funds when practical and retain documentation. If your cash flow permits, paying qualified medical expenses outside the HSA allows more of the account to remain invested. Keep receipts and records showing that each expense:

- Was incurred after the HSA was established;
- Was not reimbursed from another source; and
- Was not claimed as an itemized deduction.

Under current federal rules, reimbursement does not have to occur in the same year as the expense.

4. Use the HSA as a long-term healthcare reserve. The accumulated balance can later be used tax-free for qualified medical

© 2026 Johnson O'Connor Feron & Carucci LLP | Certified Public Accountants

expenses, allowing the account to support healthcare costs throughout retirement.

Example: Assume an eligible individual contributes the maximum each year, invests the available balance, and pays current medical expenses from non-HSA funds. By retaining eligible receipts, the individual may reimburse those expenses from the HSA in a later year, subject to the substantiation requirements, while allowing the account to remain invested in the meantime. This approach is generally most appropriate when the individual has adequate emergency savings and is comfortable with investment risk.

For clients who do not need to use the account for current expenses, this combination of tax benefits and long-term flexibility can make an HSA an effective planning tool.

HSA eligibility and contribution limits depend on health coverage, Medicare enrollment, other coverage, the timing of eligibility, employer contributions, and individual circumstances. If you are enrolled in an **HSA-eligible high-deductible health plan**, consider whether maximizing your contributions and adopting a long-term investment and receipt-retention strategy fits your overall tax and financial plan.

RELATED SERVICES

Individuals, Trusts & Estates Tax

State & Local Tax

© 2026 Johnson O'Connor Feron & Carucci LLP | Certified Public Accountants