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Health Savings Accounts can be powerful financial tools

In recent years, as people continually seek ways to make healthcare more affordable, Health Savings Accounts (HSAs) have emerged as a popular tool for saving money and building wealth. At the most basic level, HSAs are special purpose accounts used in conjunction with a High Deductible Health Plan (HDHP). They enable people to pay for current health expenses and save for future qualified medical expenses, including retiree health expenses, on a tax-free basis. But the true advantages lie in some of its lesser-known benefits.

Additional benefits of HSAs

Retirement health care savings. Healthcare costs are on the rise, without much relief on the foreseeable horizon. For younger workers, this is particularly important. You may not have many health-related expenses now, but as you grow older these expenses can accumulate quickly. HSAs can help cover the costs of future healthcare needs—expected and unexpected—by allowing for pre-tax contributions that can be withdrawn tax free for qualifying expenses.

Major tax advantages. Contributions are tax-free, either pre-tax if using payroll deductions or tax deductible if making direct payments to your account. Any interest or earnings from your account grow tax-deferred. And withdrawals for qualified medical expenses are tax free. This is what's called the Triple Tax Advantage. It's what distinguishes HSAs from other retirement accounts, which are taxed either when deposits are made or funds are withdrawn or distributed.

Overlooked investment value. Many people are not aware they can invest the balance in their HSA account. This is extremely valuable if you are healthy and want to leverage the long-term growth HSAs offer. Some HSAs, including KeyBank's, offer select retirement options when balances reach a certain threshold. Remember, earnings grow tax deferred, and if you ultimately withdraw the money for medical expenses, there is no tax penalty. Withdrawals can be applied to Medicare premiums or even long-term care expenses, including insurance. Once you're 65, you can withdraw the funds for non-medical expenses without penalty, but such withdrawals will be taxed as ordinary income.

Growing balance. There is no spend it or lose it component of HSAs. What you do not use at the end of one year rolls over to the following year. If you want to contribute more with the idea of converting your savings to investment, not only is that acceptable, but it is a great way to complement traditional 401(k) contributions and provide added security.

Complete control. Finally, your HSA is yours. You keep the account if you leave your employer, relocate or become unemployed. You choose how you use the funds, which can empower you to have greater choice and control of how you choose to meet future health care needs.

Frequently asked questions

Can anyone open an HSA?
No. You must have a HDHP, cannot be enrolled in Medicare or cannot be claimed as a dependent on someone's taxes.

What is a HDHP?
HDHPs are healthcare plans that offer higher deductibles but lower premiums than other health insurance plans.

How much can I contribute to my HSA in any given year?
Limits for 2026 are $4,400 for yourself or up to $8,750 if your HDHP covers at least one other family member. Individuals 55 or older are allowed an additional $1,000 catch-up contribution.

My employer makes contributions to my HSA. Are these contributions taxed?
Employer contributions are not subject to federal income tax, Social Security or Medicare taxes.

What are qualified medical expenses?
Common qualified expenses include deductibles, co-insurance, prescriptions, dental, vision and more. For a more comprehensive list, refer to the back page of this document.

Do I have to use my HSA for qualified medical expenses?
No, but non-qualified deductions are taxable as income and subject to a 20% tax.

Can I use my HSA for my spouse or children? Can it be transferred after my death?
You can use your HSA to cover qualified expenses for you, your spouse or any dependent children. As with an IRA or 401(k), you must name a beneficiary of your HSA. This beneficiary will inherit your account if you are to pass.

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Health Savings Account qualified expenses*.

Medical Expenses that are deductible and/or eligible for tax-free withdrawals from a health savings account

- Abdominal supports
- Abortion
- Acupuncture
- Alcoholism treatment
- Ambulance
- Anesthetist
- Artificial limbs
- Autoette *(when used for relief of sickness/disability)*
- Bandages
- Birth control pills *(by prescription)*
- Blood tests
- Blood transfusions
- Braces
- Cardiographs
- Chiropractor
- Christian Science Practitioner
- Contact lenses
- Contraceptive devices *(by prescription)*
- Convalescent home *(for medical treatment only)*
- Crutches
- Dental treatment
- Dental X-rays
- Dentures
- Dermatologist
- Diagnostic fees
- Diathermy
- Drug addiction therapy
- Drugs *(prescription)*
- Elastic hosiery *(prescription)*
- Eyeglasses
- Fees paid to health institute prescribed by a doctor
- Fluoridation unit
- Guide dog
- Gum treatment
- Gynecologist
- Healing services
- Hearing aids and batteries
- Hospital bills
- Hydrotherapy
- Insulin treatments
- Lab tests
- Lead paint removal
- Lodging *(away from home for outpatient care)*
- Menstrual care products
- Neurologist
- Nursing services
- Obstetrician
- Operating room costs
- Ophthalmologist
- Optician
- Optometrist
- Oral surgery
- Organ transplant *(including donor's expenses)*
- Orthopedist
- Osteopath
- Over the counter drugs, medicines and other medical products
- Oxygen and oxygen equipment
- Pediatrician
- Physician
- Physiotherapist
- Podiatrist
- Postnatal treatments
- Practical nurse for medical services
- Pregnancy test kit
- Prenatal care
- Prescription medicines
- Prosthesis
- Psychiatrist
- Psychoanalyst
- Psychologist
- Psychotherapy
- Radium therapy
- Registered nurse
- Special school costs for the handicapped
- Speech therapy
- Spinal fluid test
- Splints
- Sterilization
- Surgeon
- Syringes
- Telehealth and remote care services
- Telephone or TV equipment to assist the hard-of-hearing
- Therapy equipment
- Transportation expenses *(relative to health care)*
- Vaccines
- Vasectomy
- Vitamins *(if prescribed)*
- Wheelchair
- Wigs *(hair loss due to disease)*
- X-rays

Non-Deductible Expenses (not eligible for tax-free HSA withdrawals)

- Advance payment for services to be rendered next year
- Athletic club membership
- Bottled water
- Commuting expenses of a disabled person
- Cosmetic surgery and procedures
- Cosmetics, hygiene products, and similar items
- Diaper service
- Domestic help
- Exercise equipment
- Funeral, cremation or burial expenses
- Hair loss medication/hair transplants
- Health programs offered by resort hotels, health clubs, and gyms
- Illegal operations and treatments
- Illegally procured drugs
- Maternity clothes
- Premiums for life insurance, income protection, disability, loss of limbs, sight or similar benefits
- Scientology counseling
- Social activities
- Special foods or beverages
- Specially designed car for the handicapped other than an autoette or special equipment
- Swimming pool
- Teeth whitening/bleaching
- Travel for general health improvement
- Veterinary fees
- Vitamins and nutritional supplements
- Weight loss programs (subject to change under new IRS guidelines)

Note: HSA funds may not be used, at least on a tax-free basis, to pay for health insurance premiums. There are four notable exceptions. HSA funds may be used to pay for:

1. A health plan during any period of continuation coverage required under any federal law (i.e., COBRA, etc.),
2. A qualified long-term care insurance contract,
3. A health plan during a period in which the individual is receiving unemployment compensation under any federal or state law, and
4. Medicare premiums (this is a relatively new recognized expense and a "great" reason to fund an HSA prior to retirement, so you can use tax-free dollars to pay Medicare premiums on Part A, Part B, Part C and Part D).

*This list provides examples of expenses that may qualify and is not meant to be comprehensive. The Internal Revenue Service maintains the official list of qualified medical expenses in Publication 502. For more detailed information, please visit key.com/hsa to view IRS Publication 502 entitled, "Medical and Dental Expenses" for the most up-to-date list of eligible expenses.

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