Understanding health savings accounts

Frequently asked questions

What is a health savings account?

A health savings account (HSA) is a tax-advantaged account you can use to pay for qualified medical expenses (QMEs) for you, your spouse and qualified dependent(s) at any time, now or in the future. It works in tandem with an HSA-qualified high deductible health plan (HDHP), which generally offers lower monthly premiums, to give you more control over your healthcare spending. You can put the money saved on the HDHP premiums into your HSA to cover QMEs as needed.

What are the advantages of an HSA?

Triple tax-free benefit—No other type of account offers these three tax advantages together.

1. Tax deductible contributions—All HSA contributions reduce your annual taxable income by the amount you contribute.
2. Tax-free earnings—Your HSA balance is yours to keep and can be invested over time, generally once your account balance reaches a minimum (usually $1,000 or $2,000), as determined by your employer or the health plan. Any earnings on your HSA balance grow tax free.
3. Tax-free withdrawals—Any withdrawals for QMEs are tax free.[1]

Flexibility—You can spend your HSA balance now on current out-of-pocket medical costs for you, your spouse and qualified dependent(s). You can also save it to help pay for QMEs in retirement.

Portability—Your HSA is portable. The account belongs to you, just as an individual retirement account (IRA) belongs to you. Once you open an HSA, you can take it with you whether you change jobs, switch health plans or retire.

Control—Owning an HSA lets you decide how to save and pay for QMEs. You can even use it to help cover your health plan deductible and out-of-pocket medical expenses, such as over-the-counter medications.

Who can contribute to an HSA?

You, your employer and family members may contribute to your HSA as long as you're covered by an HSA-qualified HDHP. The HSA holder must not have other health plan coverage, e.g., through a spouse's plan, a spouse's full purpose medical Flexible Spending Account (FSA) or Health Reimbursement Account (HRA) or enrollment in TRICARE, Medicare or Medicaid.

The account holder may not be claimed as a dependent on another person's tax return. The account holder is responsible for ensuring they're eligible to make or receive an HSA contribution.

How much can I contribute to an HSA?

The maximum contribution amount is updated annually by the IRS and includes all contributions, including those made by an employer or family member on behalf of an account holder (**IRS publication 969**).

Tax year	Maximum HSA contribution limit[2,3]	
	Individual	Family
2024[3]	$4,150	$8,300
2025	$4,300	$8,550
Catch up (age 55+)[4]	$1,000	

Differences with other plans

How is an HSA different from a medical FSA?

Both a medical FSA and HSA allow you to pay for QMEs tax free. However, an HSA balance is yours to keep year after year, while an FSA balance left unspent at the end of the benefit year (sometimes with a grace period of typically 2½ months) is forfeited. You can have both an HSA and FSA as long as the medical FSA is considered a "limited purpose" FSA that is only used to pay for vision and dental expenses.

The IRS sets maximum annual contribution limits for both FSAs and HSAs. An FSA has one limit ($3,300 for 2025) and is not dependent on the type of health coverage you select. The limit for an HSA is higher and determined by whether you have individual or family health plan coverage. An HSA also allows catch-up contributions once you reach age 55, whereas an FSA does not.

How is an HSA similar to and different from a retirement plan such as a 401(k) or 403(b)?

An HSA is similar to a retirement plan in that they both allow you to save money on a pretax basis. However, there are important differences to consider.

IRS contribution limits to a retirement plan are significantly higher, and catch-up contributions are allowed earlier (at age 50). However, funds may not generally be accessible before age 59½ without incurring a tax penalty.

Additionally, withdrawals of pretax contributions and their earnings from a retirement plan are subject to income taxes. (If you made Roth contributions, qualified withdrawals are not taxed.) With an HSA you may withdraw money for QMEs at any age without penalty. After age 65, you may withdraw from your HSA for any reason, though money used for expenses other than QMEs would be subject to income taxes. HSA withdrawals for nonqualified medical expenses before age 65 are subject to ordinary income tax and a 20% tax penalty.

When used solely for QMEs, an HSA has added benefits, including no required minimum distributions in retirement. Both a retirement plan and an HSA are great resources for saving for retirement. The best plan for your retirement may be to couple an HSA with your retirement plan for the maximum advantage. You should talk to a TIAA financial consultant and/or tax advisor for help making your decisions.

Contributions

Are there any income limits for contributing to an HSA?

Income is not a factor in determining eligibility to make HSA contributions. The only requirement is participation in an HSA-qualified HDHP as described on page 1.

How do I make contributions to an HSA?

- **Payroll deduction**—If your employer offers this option, you may have your contributions deducted from your paycheck. Your contributions will be made pretax (before Social Security, federal and most state income taxes are deducted), thereby reducing your taxable income. Most employers offer the ability to change your HSA contribution amount at any time during the year. Check with your employer for any specific payroll policies that may apply.
- **Direct contributions**—You may choose to make all or part of your annual HSA contribution directly with the administrator or custodian. These contributions may be deducted on your income tax return, using IRS Form 1040 and Form 8889.
- **Employer contributions**—Your employer may make contributions to your HSA. These contributions are part of the HSA annual contribution limit. They are not included as part of your gross income.

If you change health plans and are no longer covered by an HSA-qualified HDHP or you enroll in Medicare, you'll no longer be eligible to make or receive contributions to your HSA. However, you'll continue to have full access to your HSA balance, which can be used to pay for any out-of-pocket QMEs for you, your spouse or eligible dependent(s). Your HSA goes wherever you go.

What if I’m self-employed?

If you’re self-employed, you can also contribute to an HSA outside of an employer-sponsored health plan, but you still need to be covered by an HSA-qualified health plan and can file for a deduction on your annual tax return.

I have an HSA from a prior employer. Can I transfer it to TIAA?

Yes, you can transfer an HSA from a prior employer to TIAA, though you’ll first need to enroll in the TIAA HSA if you haven’t already. Once you receive your account setup notification and HSA card from HealthEquity, the administrator of the **TIAA HSA**, you can complete the **HSA Transfer Form**.

Spending your HSA

What healthcare expenses are covered by my HSA?

Your HSA can be used tax free to pay for **qualified medical expenses**, including deductibles, coinsurance, prescriptions, dental, vision care and more.

Numerous over-the-counter products are also considered QMEs and can be purchased with your HSA debit card. Go to the **HSAstore.com** for a convenient way to purchase guaranteed HSA-eligible products.

Can I pay out-of-pocket eligible expenses with after-tax dollars instead of using my HSA funds?

Yes. You can pay out-of-pocket QMEs with other funds instead of using your HSA. If you do use other funds to pay your current QMEs, be certain to save your itemized receipts and other documentation in the case of an IRS audit. You may choose to reimburse yourself for these eligible expenses now or at any time in the future.

Can I use my HSA to pay for QMEs of family members who may not be covered under my health plan?

Yes. You may use your HSA to reimburse yourself for healthcare expenses of your spouse and any dependent you claim on your income taxes, even if they are not covered under your health plan. You also may claim expenses incurred by children who are claimed on a former spouse’s return.

What happens to my HSA if I leave my job?

Your HSA is portable and stays with you even if you change jobs or retire. If you remain covered by an HSA-qualified HDHP while on COBRA, you can still contribute to your HSA. Or you can even use your HSA to pay for your COBRA premiums and other out-of-pocket medical expenses. If you enroll in an eligible HSA-qualified HDHP in the future, you may be able to continue contributing to your existing HSA or consolidate your account with a new administrator or custodian.

What if I spend my HSA on medical expenses that are not qualified?

If you withdraw funds from an HSA for any purpose other than QMEs prior to age 65, you’ll pay ordinary income tax plus a 20% penalty tax on the amount withdrawn. Once you reach age 65, the 20% penalty tax no longer applies, and you would be subject to ordinary income tax only on nonqualified medical expenses. If an HSA is used for QMEs, withdrawals are tax free.

Saving and investing in your HSA

Will my HSA earn interest?

Contributions to an HSA are typically deposited into an FDIC or NCUA-insured interest-bearing account. Any interest credited to the HSA will grow tax free. Assuming you withdraw for QMEs, then the withdrawal from the HSA will also be tax free.

Can I invest my HSA balance?

Once an HSA balance reaches a certain threshold, commonly $1,000 or $2,000, you may choose to invest future contributions among a variety of available mutual funds or a brokerage account to potentially grow your HSA balance. Check with your HSA administrator or custodian for more details.

Reaching age 65

What happens to my HSA balance if I'm still working after I reach age 65?

If you're still employed and not enrolled in Medicare, you may continue contributions to your HSA while enrolled in an HSA-qualified HDHP. Once you enroll in Medicare, you're no longer eligible to contribute to your HSA. However, you may continue to access your HSA balance. If you begin Social Security income benefits prior to age 65, you'll be automatically enrolled in Medicare Part A when you turn age 65, even if you remain enrolled in your employer's HSA-qualified HDHP. The general rule of thumb is to stop contributing to your HSA at least six months before enrolling in Medicare to avoid any potential tax penalties.

Once enrolled in any part of Medicare, you can use your HSA to pay for Medicare premiums and QMEs, including deductibles, copays and coinsurance for Part A (hospital and independent care), Part B (doctor and outpatient care), Part C (Medicare Advantage premiums), and Part D (prescription drugs). However, you cannot use your HSA to pay for a Medigap supplemental plan.

What if I retire before age 65?

If you retire before age 65, you can use your HSA balance for a wide range of QMEs. You can use it to pay for COBRA continuation coverage premiums, or you may choose to enroll in an individual health plan. You may use your HSA to pay deductibles, copays or other out-of-pocket QMEs. You also may use your HSA to pay for portions of a qualified long-term care (LTC) premium. The allowed amount for a qualified LTC policy increases with age, and you should consult with your tax advisor. Withdrawals from your HSA to pay for QMEs are tax free. If you use the funds for non-qualified medical expenses, the distribution becomes taxable and will be subject to the 20% penalty.

Death benefits

What happens to my HSA when I die?

Once you enroll in your HSA, you may designate beneficiaries. What happens with your HSA depends on the beneficiary.

Spouse as beneficiary—A spouse can take ownership of the HSA, contribute to the HSA (if covered by an HSA-qualified HDHP) and may continue to withdraw money tax free for their own and their qualified dependents' QMEs.

Nonspouse as beneficiary—If you designate someone other than your spouse as the beneficiary of your HSA:

- The account stops being an HSA on the date of your death and must be withdrawn in full by the beneficiary.
- Ordinary income taxes are due on the fair market value of the HSA in the year in which you die with no penalties.
- The amount taxable to a beneficiary (other than your estate) is reduced by any QMEs you incurred prior to your death that are paid from the HSA by the beneficiary within one year after the date of death.

No beneficiary—If no beneficiary is named, your HSA will become a part of your estate upon your death.

Estate as beneficiary—If your estate is the beneficiary of your HSA, the value of your HSA is included on your final income tax return.

Want to learn more?

Schedule a meeting with a financial consultant at **tiaa.org/schedulenow** or call **800-732-8353**, weekdays, 8 a.m. to 8 p.m. (ET).

[1] State and local tax treatment of HSAs and distributions may vary. HSA holders should discuss their specific situation with their legal, tax or financial professional.

[2] Annual maximum contribution limit includes employer, employee and family member contributions combined.

[3] Prior-year contributions can be made up until April 15 of the current year.

[4] If you're over age 55, you may make an additional "catch-up" contribution of $1,000.

This material is for informational or educational purposes only and is not fiduciary investment advice or a securities, investment strategy, or insurance product recommendation. This material does not consider an individual's own objectives or circumstances, which should be the basis of any investment decision.

This material is not a recommendation to buy, sell, hold or roll over any asset; adopt an investment strategy; retain a specific investment manager; or use a particular type of health coverage or account type. It does not take into account the specific health status, investment objectives, tax and financial condition or particular needs of any specific person. Federal, state and local tax treatment of health savings accounts (HSAs) and distributions may vary. HSA holders should discuss their specific situation with their legal, tax or financial professional.

Distributions for qualified medical expenses (QMEs) are tax free. Any distributions prior to age 65 and not used for QMEs are subject to ordinary income tax and a 20% excise tax. Any distributions after age 65 that are not used for QMEs are taxable at ordinary income tax rates.

HealthEquity, Inc. does not provide financial advice. HealthEquity Advisors, LLC™, a wholly owned subsidiary of HealthEquity, Inc. and an SEC-registered investment adviser, does provide web-based investment advice to HSA holders that subscribe for its services (minimum thresholds and additional fees apply). HealthEquity Advisors, LLC™ also selects the mutual funds offered to HSA holders through the HealthEquity, Inc. platform. Registration does not imply endorsement by any state or agency and does not imply a level of skill, education or training. This material is for informational or educational purposes only and does not constitute investment advice under ERISA. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on the investor's own objectives and circumstances.

Health savings accounts (HSAs) are individual custodial accounts offered or administered by HealthEquity, Inc. TIAA and HealthEquity are not legally affiliated, and TIAA HSAs are not a plan established or maintained by TIAA or an employer. TIAA may receive a referral fee from HealthEquity for each HSA opened.

Investments are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. Investing through the HealthEquity investment platform is subject to the terms and conditions of the Health Savings Account Custodial Agreement and any applicable investment supplement.

Investment, insurance and annuity products are not FDIC insured, are not bank guaranteed, are not deposits, are not insured by any federal government agency, are not a condition to any banking service or activity, and may lose value.

The TIAA group of companies and HealthEquity do not provide legal or tax advice. Please consult your legal or tax advisor.

TIAA products may be subject to market and other risk factors. See the applicable product literature, or visit tiaa.org for details.

TIAA-CREF Individual & Institutional Services, LLC, Member FINRA, distributes securities products.

4120080-0126 01/25