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For Your (Tax) Health: The Underloved HSA

HSAs are lauded for their triple-tax benefits, and can be useful for wealthy clients, even if they don't do much to improve American health care.



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IRAs and 401(k)s, Roth or traditional, get all the hype. But another type of account has them beat on tax efficiency: the HSA.

With less than a month before April 15, taxes are on a lot of folks' minds. And that may be an opportunity for advisers to nudge clients to max out contributions to Health Savings Accounts, the vehicles lauded for their so-called "triple tax" benefits. HSAs are not taxed on contributions, investment returns or withdrawals for eligible expenses in retirement. They may be the ultimate weapon against taxes, but they are sparingly used by all but a small set of investors.

"There is nothing [else] that has that much of a tax benefit," said Dr. Carolyn McClanahan, founder of Life Planning Partners. "If you don't use it, you can let it grow ... It can end up being a substantial amount."



Prescription for the Wealthy

The incomparable tax benefits of HSAs make the accounts all but a must for wealth-management clients who are eligible for them. They're highly efficient retirement accounts, as owners can reimburse themselves in the future for past medical expenses (save those receipts, and use them for a tax-free retirement income source, folks), McClanahan noted. Beyond that, they can be used for non-medical costs, but withdrawals are taxed in such cases. Affluent investors who have high-deductible health plans (or more recently, bronze or catastrophic policies) available to them can obviously benefit from HSAs, and they should consider maxing out their contributions, said McClanahan, who in addition to being an advisor is a medical doctor and has worked on health policy throughout her career. "HSAs are definitely a boon for the wealthy individual," she said. "For the average person, it just transfers healthcare costs."

HSAs at a glance:

- Annual contributions in 2026 are limited to \$4,400 for individuals and \$8,750 for families, up from \$4,300 and \$8,550, respectively in 2025. People 55 and older can contribute an extra \$1,000.



- The average account balance last year was \$5,600, with 72% of contributions being used to pay for current medical expenses and 28% being saved, data from [Bank of America](#) show. About 15% of account owners invested their contributions.

Misunderstood and Underused

Few people (1%) have more than 10% of their overall portfolios in HSAs, though it is much more common among wealthier households, figures from data and benchmarking firm Hearts & Wallets indicate. For households with at least \$3 million in investable assets, 31% have 1% to 10% of their money in HSAs, while 6% of those with less than \$100,000 have allocations in that range. And even though [HSAs](#) are more alluring for affluent families, some advisors don't broach the subject, said Kashif Ahmed, president of American Private Wealth.

“They're definitely underutilized. Many people haven't even heard of them, and there are very few advisors who know enough about them,” Ahmed said. Part of the reason is that advisors don't manage the accounts; that part is up to participants, he noted. In addition, “the contribution limits are not very high.” But for clients who have the cash flow and need for HSAs, he recommends them. “Whenever I feel like it's something a client will benefit from, it's part of the assigned homework to get it done.”

Despite the clear tax benefits, there are some details worth considering, McClanahan said. Most importantly, the accounts are meant to be used, eventually. “If you die owning your HSA and it's worth a lot of money, the person who's a beneficiary has to take all that money out in one year,” potentially saddling adult children with big tax bills, she said. “You want to make sure that you and your spouse use it up before you die.” Another nuance is about direct primary care, or subscription-based medicine, which is a useful option for people who have high deductible health plans or catastrophic coverage. Starting this year, HSA money can be used for monthly direct primary care fees, thanks to a provision in the One Big Beautiful Bill Act. However, such care cannot exceed \$150 per month for an individual or \$300 for a family. If the service costs more than that, the HSA isn't eligible to pay for any of it, McClanahan noted.

As HSAs have grown in size and number, the transparency and fees associated with them have improved, according to a report last year from Morningstar. Still, the industry could do better, particularly as some providers charge maintenance fees or have account minimums, and most offer paltry interest rates on spending account balances, the report noted.



- Fidelity, which was rated highest in both categories.
- HealthEquity, which was among the leaders in those areas.
- HSA Bank was also notable, followed by Saturna.

* **Long Term Care.** A potential shining spot for HSAs is their applicability to long-term care, where costs have increased faster than inflation, and insurance coverage and premiums have worsened. “Traditional long-term care [coverage] is a tough sell,” said Marguerita Cheng, CEO of Blue Ocean Global Wealth. “You don’t know if you’re going to need it, and the premiums can increase.” That can be important for clients in their 60s, who may still be working and have millennial children who still need some assistance, she noted. And those clients may have had experience with long-term care for their own parents, she said. Something she points out for them are the IRS’s maximum tax-deductible limits for long-term care insurance, which currently range from \$500 for someone 40 or younger to \$6,200 for someone 71 or older. “For the amount left over, that’s where HSA money can be helpful,” Cheng said.



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