

TAX STRATEGY • HEALTHCARE

# The HSA: The Most Underused Account in the Tax Code

How a Health Savings Account Becomes a Triple-Tax-Advantaged Wealth Tool

**John Koyle**, AIF® (Accredited Investment Fiduciary), Co-Founder, Red Cedar Wealth Advisors  
Red Cedar Wealth Advisors | Educational White Paper | [johnkoyle.com](http://johnkoyle.com)

## Key Takeaways

- An HSA is the only account that offers three tax advantages at once: pre-tax contributions, tax-free growth, and tax-free withdrawals for qualified medical expenses.
- For 2026, you can contribute \$4,400 (individual) or \$8,750 (family), plus a \$1,000 catch-up at age 55+, if enrolled in a qualifying high-deductible health plan.
- There is no time limit on reimbursing yourself. Pay medical bills out of pocket, keep the receipts, let the HSA invest and compound, and reimburse years later, tax-free.
- After 65 it behaves like a traditional IRA for non-medical withdrawals, with no required minimum distributions, but non-spouse heirs face a significant tax hit.

## Why This Matters

Most people treat their Health Savings Account like a debit card for doctor bills: swipe it, zero the balance, repeat. That is fine, but it misses what the account was built to do. The HSA may be the most powerful account in the U.S. tax code, and almost nobody uses it correctly. This paper explains the strategy that turns it into a stealth retirement account, along with the real tradeoffs.

## The Basic Idea, and the Three Bites

If you are enrolled in a high-deductible health plan, you are eligible to contribute to an HSA. For 2026, a qualifying plan means a deductible of at least \$1,700 for individuals or \$3,400 for a family. Once eligible, you can contribute up to \$4,400 as an individual or \$8,750 covering a family, with an extra \$1,000 catch-up at age 55 or older.

Most tax-advantaged accounts give you one tax benefit. A traditional 401(k) lets you contribute pre-tax but taxes withdrawals. A Roth flips it: after-tax money in, tax-free out. The HSA gives you three. First, contributions go in pre-tax (and are deductible if you are self-employed). Second, the money grows tax-free, not merely tax-deferred; dividends, interest, and capital gains inside the account are not taxed.

Third, withdrawals for qualified medical expenses come out completely tax-free. No other account does all three.

## Where Most People Drop the Ball

They see the HSA balance, pay a doctor bill, and zero it out. But the HSA is also an investment account. Most providers let you invest the balance in mutual funds, ETFs, and index funds, the same menu you would find in a good 401(k).

So the real strategy, if you are healthy and can afford it, is to pay medical bills out of pocket and let the HSA balance sit, invested, and compounding. Years later you can reimburse yourself for every one of those past expenses, because there is no time limit on reimbursements. You simply keep the receipts. Suppose at 40 you open an HSA and over 25 years accumulate \$60,000 in out-of-pocket medical expenses, all paid from other funds, all documented. At 65 you can withdraw that \$60,000 tax-free and penalty-free, while the balance has been compounding the entire time. A simple receipt folder effectively becomes a tax-free withdrawal account. The IRS has no statute of limitations on HSA reimbursements.

*That's how you turn an HSA into a stealth retirement account: invest it, leave it alone, document your expenses, and let time do the work.*

## How the HSA Changes at 65

Before 65, a withdrawal for something that is not a qualified medical expense triggers income tax plus a 20% penalty. After 65, that penalty disappears; non-medical withdrawals are simply taxed as ordinary income, exactly like a traditional IRA. So after 65 the HSA functions as a traditional IRA with a bonus: used for medical expenses, which most retirees have plenty of, it remains entirely tax-free. Healthcare is among the largest retirement expenses, and a dedicated account that has never been taxed is a serious advantage.

There is one more edge. Traditional IRAs and 401(k)s require minimum distributions starting at 73, forcing money out whether you need it or not. The HSA has no such rule. The balance can keep growing for as long as you live, a meaningful benefit for anyone who does not need to tap it right away.

## The Honest Tradeoffs

Not everything about the HSA is a clean win. The high-deductible requirement means you carry more risk up front; if a major medical event hits before you have built a balance, you cover more out of pocket, and for families with ongoing health needs a lower-deductible plan may be smarter even without the HSA. Contributions must stop once you enroll in Medicare, so there is a built-in deadline. And providers vary: some carry high fees, limited investment menus, or clunky platforms, and through an employer you may not get to choose.

One trap catches people off guard and matters for estate planning. If your spouse is the named beneficiary, the HSA transfers to them cleanly and remains an HSA. But if a non-spouse inherits it, a child or sibling, the account stops being an HSA at your death and the entire balance becomes taxable income to them that year. For a large, well-invested HSA, that can be a sizable bill landing at a hard moment. A Roth IRA does not have this problem and stretches across generations more flexibly, so if you are building a large HSA with legacy in mind, name your spouse as beneficiary wherever possible and weigh that asymmetry.

## **The Bottom Line**

---

If you are generally healthy, have a solid emergency fund, and can pay smaller medical bills out of pocket, the HSA is one of the best wealth-building tools available. For the self-employed, the deduction reduces taxable income dollar-for-dollar. For employees whose employer contributes, not maxing it out can mean leaving free money on the table. The HSA is not complicated; it just rewards thinking of it differently, as a triple-tax-advantaged investment account that also happens to cover medical bills.

---

## References and Sources

The following sources support the figures, rules, and statements described in this paper. They are provided for verification and for compliance review.

Internal Revenue Service. Revenue Procedure 2025-19 (2026 HSA and HDHP inflation-adjusted limits).

Internal Revenue Service. Publication 969, "Health Savings Accounts and Other Tax-Favored Health Plans."  
<https://www.irs.gov/publications/p969>

Internal Revenue Code §223 (Health Savings Accounts).

Internal Revenue Service. "Form 8889, Health Savings Accounts (HSAs)" and instructions.  
<https://www.irs.gov/forms-pubs/about-form-8889>

---

## Important Disclosures

This white paper is published by John Koyle and Red Cedar Wealth Advisors for informational and educational purposes only and does not constitute personalized financial, tax, or legal advice. Nothing in this paper should be construed as a solicitation, offer, or recommendation to buy or sell any security, or to adopt any particular investment or tax strategy.

HSA contribution limits and high-deductible health plan thresholds cited reflect IRS figures for 2026 and are subject to change. Eligibility, qualified-expense rules, and estate treatment depend on individual circumstances; consult a qualified tax professional. Note that some states, including California and New Jersey, do not conform to federal HSA tax treatment.

Investing involves risk, including the possible loss of principal. Past performance is not indicative of future results, and there can be no assurance that any investment strategy will achieve its objectives. No content in this paper is a prediction or projection of future performance. Tax laws, contribution limits, and regulations are subject to change; figures cited reflect rules in effect as of the date of publication. Please consult qualified legal, tax, and investment professionals regarding your specific situation.

References to third-party sources are provided for context and verification; their inclusion does not imply endorsement, and neither John Koyle nor Red Cedar Wealth Advisors is responsible for the content of third-party materials.

---

## Regulatory Disclosures

### Broker-Dealer Disclosure

Securities offered through Osaic Wealth, Inc., Member FINRA ([www.finra.org](http://www.finra.org)) / SIPC ([www.sipc.org](http://www.sipc.org)). Investment Advisory Services offered through Osaic Advisory Services, LLC. Osaic Wealth and Osaic Advisory are separately owned, and other entities and/or marketing names, products, or services referenced here are independent of Osaic Wealth and Osaic Advisory.

### State Registration (Blue Sky)

This communication is strictly intended for individuals residing in the states of Arizona, California, Colorado, Idaho, Montana, Nevada, Oregon, Texas, Utah, and Washington. No offers may be made or accepted from any resident outside the specific state(s) referenced.

### FINRA BrokerCheck

You can check the background of this financial professional on FINRA's BrokerCheck at <https://brokercheck.finra.org/individual/summary/4409795>. Full disclosures are available at [johnkoyle.com](http://johnkoyle.com).

*FOR ADVERTISING SUPERVISION: This educational white paper is a pre-publication draft submitted for review prior to going live on [johnkoyle.com](http://johnkoyle.com). It is intended as a retail communication for the firm-approved securities-related website. Disclosure language mirrors the approved disclosures currently published at [johnkoyle.com](http://johnkoyle.com). It will not be posted until written approval is received.*

---

## Red Cedar Wealth Advisors

John Koyle, AIF® (Accredited Investment Fiduciary), Co-Founder, Red Cedar Wealth Advisors

1414 East Center Street, Pocatello, Idaho 83201  
(208) 915-8400 | [johnkoyle.com](http://johnkoyle.com)  
© 2026 Red Cedar Wealth Advisors. All rights reserved.