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HEALTH BENEFITS

If your company offers health, dental, and vision insurance, these can lift a huge financial burden from your shoulders, especially if they subsidize a portion of your family coverage. Here are a few options to consider that, if available, could add to your health savings:

HIGH DEDUCTIBLE HEALTH PLAN (HDHP) AND HEALTH SAVINGS ACCOUNT (HSA)

An HDHP offers lower monthly premiums and allows you to access a Health Savings Account (HSA). An HSA is a powerful savings vehicle, where you can save money tax-free to use for healthcare expenses (see below). Be aware that the high deductible of HDHPs may mean more out-of-pocket costs if you have high medical expenses; this type of plan may not be well-suited if you know you will require significant medical care. Carefully review the annual deductibles and out-of-pocket maximums on all your healthcare options to choose one that will fit your needs.

An HSA is a medical savings account that allows you to contribute and invest pre-tax dollars to save for healthcare expenses. As long as you use that money for qualified healthcare expenses, it is free from income taxes. An HSA account belongs to you even if you switch health plans or employers. Three significant tax benefits of using an HSA are:

- Contributions are pre-tax (lowering your taxable income).
- Funds can be invested and grow tax-deferred (or tax-free if used for eligible expenses).
- Withdrawals are tax-free if used for qualified medical expenses, provided you are enrolled in an HDHP.

HSA QualifiedWithdrawals

Qualified medical expenses include deductibles, fees, and other healthcare expenses incurred on behalf of yourself, your spouse, and any dependents. There is no time limit for claiming a reimbursement from your account, provided your claimed expenses are documented. Find a list of qualified expenses in IRS Pub 502: Medical and Dental Expenses.

Funds from your HSA generally may not be used to pay insurance premiums, except in the case of these notable exceptions:

- Long-term care insurance (if qualified and subject to IRS age limits)
- Healthcare continuation coverage (such as under COBRA)
- Healthcare coverage while receiving unemployment compensation under federal or state law
- Once you reach age 65, you may use your HSA funds to pay for Medicare Parts A, B, and D premiums, and Medicare HMO premiums. (However, premiums for a Medicare supplemental policy such as Medigap do not qualify as eligible expenses.)

HSA Contribution Limits

To contribute to an HSA in 2026, your HDHP must have a deductible of at least $1,700 for self-only coverage or $3,400 for family coverage. The maximum 2026 contribution limit for an HSA is $4,400 for individuals and $8,750 for families. If you are age 55 or older, you can contribute an additional $1,000. You have until April 15 of the following year to contribute for the year prior (i.e. you have until April 15, 2027 to make your 2026 contributions).

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HSA Frequently Asked Questions

DO HSAs INCLUDE FEES?

Yes, and they vary from plan to plan.

ARE EMPLOYER CONTRIBUTIONS TO AN HSA CONSIDERED TAXABLE INCOME?

Generally, contributions made by an employer to the account of an eligible employee are excluded from an employee's income and are not subject to federal income tax, Social Security, or Medicare taxes.

DO HSAs COME WITH INVESTMENT OPTIONS?

Most plans offer investment options, but most HSAs require you to maintain a minimum cash balance before you can open an investment account.

IS THERE A DEADLINE TO MAKE CONTRIBUTIONS TO AN HSA ACCOUNT?

Yes, yearly contributions should be made by your tax filing deadline, generally April 15 of the following year.

CAN I MAKE HSA CONTRIBUTIONS AFTER I TURN 65?

Once you enroll in Medicare, you can no longer contribute to your HSA. However, you may be eligible to make a pro-rated contribution in the year in which you turn 65 before you enroll in Medicare.

CAN I WITHDRAW MONEY TO PAY OTHER EXPENSES?

Non-qualified withdrawals are permitted at any time but will be included in your taxable income. If you are under the age of 65, you will also pay an additional 20% tax penalty. The penalty is waived if you are permanently disabled or when withdrawals are made after your death.

CAN I USE THE MONEY IN MY HSA TO PAY FOR MEDICAL CARE FOR A FAMILY MEMBER?

Medical expenses for yourself, your spouse, and dependents are qualified expenses that may be withdrawn without tax penalty.

CAN I TRANSFER MY IRA INTO AN HSA?

Yes, the law allows a one-time transfer of IRA assets to fund an HSA for individuals who are eligible to open an HSA. The IRA and HSA must be in the name of the same person. The amount transferred will count toward your annual HSA contribution limit in the year in which it is executed. Transfers are not taxable as IRA distributions but also cannot be deducted as an HSA contribution. This works best if you'll stay on an HSA-eligible plan for at least 12 months after.

WHAT HAPPENS TO MY HSA AFTER I PASS AWAY?

If your spouse is the beneficiary of your HSA, the account simply transfers and becomes their HSA. If someone other than your spouse is the beneficiary, the account loses its HSA status and becomes a taxable account. The full value of the account is taxable as income to the beneficiary in the year of your death, less any of your qualified medical expenses incurred before your death that the beneficiary pays for from the account within one year of your death. If your estate is the beneficiary of your HSA, the value of the account is included as income on your final tax return.

FLEXIBLE SPENDING ACCOUNTS (FSAs)

A Flexible Spending Account (FSA) is another option for healthcare savings if you are not eligible for an HSA. Like HSAs, FSAs allow you to contribute pre-tax dollars for healthcare expenses. Unlike HSAs, FSAs are “use it or lose it” – you lose unspent dollars at the end of the calendar year (though many plans allow you to carry some portion of it over into the following year). If you can estimate the cost of your medical and dependent care expenses for the year in advance, an FSA can be an excellent tool for reducing your taxable income.

FSA Contribution Limits

The contribution limit for a healthcare FSA in 2026 is $3,400, with a maximum carryover of $680.

The 2026 contribution limit for a dependent care FSA is $7,500 for individuals or married couples filing jointly, or $3,750 for a married person filing separately.

Coldstream can help.

Your employer benefits are an important part of your overall financial picture, helping you build long-term wealth and security. Our planners are in your corner; we have decades of experience and can help you explore options and find the best ways to make your benefits work for you.

Contact us to learn more about how we may be able to help. Reach out at 425.283.1600 or info@coldstream.com. We look forward to learning more about the legacy you want to create.

This is general information, not personalized tax advice. Talk with your tax advisor before acting.