The New York Times
https://www.nytimes.com/2025/02/14/your-money/hsa-savings-retirement.html

YOUR MONEY ADVISER

How to Become a Millionaire With a Health Savings Account

A new analysis finds that a diligent saver who leaves the money untouched for decades can accumulate $1 million. But not everyone with an H.S.A. can afford to leave the money untapped.

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Feb. 14, 2025

It’s possible to amass $1 million in special health savings accounts to use in retirement, a new analysis finds, with several big caveats.

You have to start young, contribute the maximum each year and leave the money untouched for decades instead of spending it on medical needs.

Health savings accounts, known as H.S.A.s, let people set aside pretax money for health and medical care.

To open an H.S.A., you must have a specific type of health plan with a high deductible — an amount you must cover out of pocket before insurance pays. The money can be saved or invested to grow tax-free, and is tax-free when withdrawn and spent on eligible care or products. (The federal government does not tax the accounts, but some states assess state taxes.)

Because of their robust tax advantages, H.S.A.s are seen as a valuable tool to save for health needs later in life, including costs that aren't covered by Medicare, the federal health plan for older Americans. H.S.A. funds can also be spent on nonmedical costs after age 65 without penalty. The money is taxed as ordinary income.

The new analysis by the Employee Benefit Research Institute, a nonprofit group, assumes that at age 25, a saver begins contributing the maximum allowable amount each year ($4,300 for an individual in 2025 — the amount is tweaked annually for inflation — and an additional $1,000 for people 55 and older) and continues those contributions through age 64 with no withdrawals, "regardless of whether the individual uses any health care services." It also assumes the funds are invested and earn a 7.5 percent rate of return.

At lower rates of return, or fewer years of saving, the total would be less. At a 5 percent return, total savings after 40 years would be about $540,000 and at 2.5 percent, $298,000. Recent estimates of average savings needed to cover health care costs in retirement range from $165,000 to $184,000 for an individual, depending on variables like health status and the type of Medicare plan or other health coverage the person may have.

The catch in saving so much in an H.S.A., of course, is the difficulty of maxing out annual contributions and leaving the money alone for four decades, paying for any needed care with other funds. Many account holders use H.S.A.s as if it were a checking account to pay for current care rather than for long-term savings. According to Devenir, an H.S.A. investment firm, 47 percent of funded H.S.A.s had withdrawals in 2023. As of mid-2024, just 9 percent of all accounts invested at least part of their balance.

Paul Fronstin, director of health benefits research at the institute and an author of the analysis, said that the report illustrated the potential of H.S.A.s when someone took full advantage of them — but that not everyone could.

"I don't think it's realistic for the average person," he said. "You have to have enough money to max out contributions, and a lot of people don't."

H.S.A.s have been criticized by some groups as benefiting mainly more affluent Americans who can afford to invest their contributions while paying for medical costs out of pocket. The accounts were introduced more than 20 years ago, and as of mid-2024, more than $137 billion was held in about 38 million accounts, according to Devenir.

The accounts have grown along with the prevalence of health plans with high deductibles, which can make it difficult for many working people to pay for medical care, said Andrea Ducas, vice president of health policy at the Center for American Progress, a liberal think tank.

"If you have less than $400 in savings and a $5,000 deductible, what does that health coverage actually mean for you?" she said.

In 2024, 21 percent of people with job-based health insurance were in H.S.A.-eligible, high-deductible health plans, up from 14 percent a decade earlier, according to KFF, a nonprofit health care research group. But some research suggests many enrolled in such plans aren't using the accounts to save for health care.

Even so, various legislative proposals would broaden the availability of the accounts. One Republican-sponsored bill reintroduced in January, for instance, would expand the type of insurance plans eligible for H.S.A.s and increase annual contribution limits to better reflect the account holder's potential out-of-pocket costs.

The Tax Foundation, a research group that generally favors lower taxes, has suggested eliminating tax breaks for H.S.A.s and adopting so-called universal savings accounts that could be used for a broad variety of purposes, not just for health care, without penalty. The accounts might behave similarly to Roth individual retirement accounts, which offer no tax break for contributions but provide tax-free withdrawals (if certain requirements are met). The foundation has argued that universal accounts are more flexible and "fiscally responsible," and that they can help simplify the current patchwork of complex, tax-favored accounts that can stymie savers.

A draft list of ideas to pay for a tax cut circulated among House Republicans in January included an item that would replace H.S.A.s with universal accounts. Alex Cyriac, chief executive of Lively, a financial technology company that offers H.S.A.s., described discussion of universal accounts as a "talking point" but said the elimination of such accounts was unlikely.

"I think the probability is pretty low," largely because so many Americans have them, Mr. Cyriac said.

Another bill, proposed with bipartisan support, would create a Roth-type account for health care expenses — similar to H.S.A.s but for people with low- or no-deductible health plans.

Here are some questions and answers about health savings accounts:

Can I take my H.S.A. with me if I change jobs?

Yes. The accounts move with you if you change employers, in contrast with other workplace options like flexible health spending accounts, and there's no deadline for spending the money.

What is the minimum deductible for an H.S.A. health insurance plan?

For 2025, an H.S.A.-eligible health plan must have a deductible of at least $1,650 for individual coverage and $3,300 for family coverage.

What is the deadline for making an H.S.A. contribution for 2024?

You can contribute for 2024 up to this year's tax filing deadline (April 15 in most states, with later deadlines in federal disaster areas). If you are making a contribution this year for the 2024 tax year, the maximum contribution is $4,150 for individuals and $8,300 for families. (People 55 and older can contribute an additional $1,000.)

A version of this article appears in print on , Section B, Page 5 of the New York edition with the headline: How Health Savings Accounts Can Earn Big