LESSON · HEALTH CARE & ACA

Your HSA Is a Retirement Account You're Probably Underusing

A Health Savings Account is the only account with a triple tax advantage — and after 65, it can work almost like a Traditional IRA for anything, not just medical costs. Here's how to actually use one in retirement, and the enrollment trap that catches people off guard.

Read time: 7 minutes **Level:** Foundational **Includes:** Knowledge check

A Health Savings Account is easy to think of as just a place to save for this year's doctor visits. Used that way, it's fine. Used deliberately, it's the only account in the tax code with a triple tax advantage — and after 65, it starts to behave almost like a Traditional IRA for anything, not just medical costs.

The triple tax advantage, side by side

Contributions to an HSA are tax-deductible (or pre-tax if made through payroll). The balance grows tax-free while invested. And withdrawals for qualified medical expenses are tax-free as well — no other account offers all three at once.

How it compares

STAGE	TRADITIONAL IRA	ROTH IRA	HSA (MEDICAL USE)
Contribution	Tax-deductible	No deduction	Tax-deductible
Growth	Tax-deferred	Tax-free	Tax-free
Qualified withdrawal	Taxed as income	Tax-free	Tax-free

A Traditional IRA gives you the deduction and tax-deferred growth, but taxes withdrawals. A Roth IRA gives you tax-free growth and withdrawals, but no deduction going in. An HSA, used for medical expenses, skips tax at every single stage — which is why it's often ranked ahead of both for pure tax efficiency, even though it can only be used at all if you're enrolled in a qualifying high-deductible health plan.

Contribution limits and the rules around them

Annual contribution limits are set for self-only and family HDHP coverage, with an additional catch-up amount allowed once you turn 55 — these figures are adjusted most years, so check the current-year limit rather than relying on an old number. A "last-month rule" lets someone who becomes HSA-eligible partway through the year contribute as if they'd been eligible all year, but it comes with a testing period: you generally need to stay HSA-eligible through the following December, or part of that extra contribution can become taxable retroactively.

What changes once you're on Medicare

Once you enroll in Medicare, you can no longer contribute to an HSA — but nothing forces you to spend down what's already there. Two things change in your favor at 65: qualified medical expenses can now include Medicare Part B and Part D premiums (though not Medigap / Medicare Supplement premiums), and non-medical withdrawals are taxed as ordinary income only, with the 20% early-withdrawal penalty gone. At that point, an unused HSA balance functions a lot like a Traditional IRA for any purpose — with the added benefit that it's still fully tax-free for medical spending.

The six-month lookback that catches people off guard

Medicare Part A coverage is often backdated up to six months once you enroll (though never earlier than your 65th birthday) — including when Part A starts automatically because you filed for Social Security. If you contributed to an HSA during what turns out, in hindsight, to be a period of retroactive Medicare coverage, those contributions can become excess contributions subject to tax and a penalty. The practical fix is straightforward: stop HSA contributions at least six months before you plan to enroll in Medicare or claim Social Security after 65, whichever comes first.

What happens to a spouse's HSA

A spouse who isn't yet on Medicare and is still covered by a qualifying HDHP can keep contributing to their own HSA even after you enroll in Medicare — Medicare enrollment only stops the HSA contributions of the person who actually enrolls, not their spouse's separate eligibility.

A detail worth knowing: there's no deadline on reimbursement

You can pay medical expenses out of pocket now, save the receipts, and reimburse yourself from the HSA tax-free years or even decades later — there's no time limit, as long as the expense happened after the account was opened. That's what lets an HSA grow, invested, for a long time while you're still working and healthy enough to cover smaller costs directly, effectively turning it into a tax-free growth account disguised as a medical fund.

How Blueprint approaches this

Blueprint models HSA balances being used specifically to cover Medicare premiums in retirement — treating the account as a dedicated, tax-free funding source for one of the more predictable ongoing costs in a retirement paycheck, rather than folding it into a generic "other savings" bucket.

Getting the most from an HSA:

- [ ] Contribute the current-year maximum while you're still eligible
- [ ] Invest the balance rather than leaving it in cash, if you can cover near-term medical costs another way
- [ ] Save receipts for expenses you pay out of pocket, for tax-free reimbursement later
- [ ] Stop contributions at least six months before enrolling in Medicare or claiming Social Security after 65
- [ ] If married, check whether your spouse can keep contributing to their own HSA after you enroll in Medicare

KNOWLEDGE CHECK

Test what you just learned

Answer four quick questions to test what you just learned.

1. What are the three tax advantages of an HSA?

> A. Only two — there's no third advantage
>
> B. Tax-deductible contributions, tax-free growth, and tax-free qualified withdrawals
>
> C. None — HSAs are taxed like a regular savings account

2. What happens to a non-medical HSA withdrawal taken after age 65?

> A. It's always subject to a 20% penalty
>
> B. No penalty applies, but it's taxed as ordinary income
>
> C. It remains completely tax-free

3. Why does the Medicare six-month lookback rule matter for HSA contributions?

> A. It doesn't affect HSAs at all
>
> B. Part A coverage can be backdated up to six months, which can turn recent HSA contributions into excess contributions
>
> C. It only applies to HSA withdrawals, not contributions

4. Can HSA funds pay a Medigap (Medicare Supplement) premium tax-free?

> A. Yes, always
>
> B. No — Medigap premiums are not a qualified HSA expense
>
> C. Only if you're under 65

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