Is It Worth Your Time and Money To Set Up a Health Savings Account?

With an HSA, you set aside money from your paycheck before taxes, and you can use that money to pay for medical expenses later.

March 26, 2026 By Blake Farmer, Cara Anthony , Emily Siner , Nashville Public Radio and KFF Health News

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When Mike McKee thinks about saving money for the future, he has a few priorities. Maxing out his retirement is one. Building up his kid's college fund is another.

Opening up a health savings account? Not so much, even though he qualifies because of his high-deductible health plan.

"I'm so frustrated with the system that has anything to do with medical savings," said McKee, 42, a self-employed musician in Nashville, Tennessee. "I'm just so turned off emotionally that I have to be really careful to be logical about it."

More Americans are eligible to open an HSA — a kind of tax-free savings account that lets them sock away money for medical expenses — after changes that were part of new legislation last year. But an HSA can be a headache to set up and navigate.

Here's what to know about how they work and when they're worth it.

Like a Tax-Free Investment Account for Medical Expenses

With an HSA, you set aside money from your paycheck before taxes, and you can use that money to pay for medical expenses later. Most purchases related to health qualify, including medications, glasses, orthodontia, and many kinds of therapy.

You have options for the money in the account, including investing it. Some people call HSAs a "triple tax advantage": There are no taxes on the money that goes in, no taxes on any interest earned, and no taxes on the money that comes out for medical expenses.

Pro tip: An HSA is not the same as an FSA, or flexible spending account, even though it sounds similar. An FSA also lets you put pretax income into an account for medical expenses, but you typically lose unspent money at the end of the calendar year. By contrast, HSA money stays in your account until you spend it. Think F for "forfeit" and H for "hold on to."

The Admin Work of an HSA Can Be a Real Barrier

First, you have to find out whether your health plan allows for an HSA. Most high-deductible health plans do, but with these plans you might have to spend thousands of dollars before most benefits kick in. Starting this year, plans on the individual Affordable Care Act marketplace that are categorized as “bronze” or “catastrophic” are also eligible. (The easiest way to find out whether you qualify is to call the number on the back of your insurance card and ask.)

Then, you have to open the HSA on your own through a financial institution — although if you get health insurance through a job, your employer might have preferred institutions. And finally, you have to keep track of your qualified medical expenses. You pay for them using a special debit card or by submitting claims for reimbursement, usually through an online portal. Either way, it’s smart to hold on to receipts.

People and Policy

If you’re living paycheck to paycheck, you may find it difficult to take advantage of the tax savings that come with an HSA. “HSAs, in this way, tend to benefit more the higher-income enrollees, because those are the ones who have the disposable income to set aside at the end of the month,” said Michelle Long, a policy researcher at KFF, a health information nonprofit that includes KFF Health News. Plus, people with higher incomes and higher tax brackets have more to gain from getting discounts on their taxes, which is basically what an HSA provides.

Katherine Ruppelt at Nashville Public Radio contributed to this report.

HealthQ is a health series from reporters Cara Anthony and Blake Farmer, approachable guides to an unapproachable health care system. It’s a collaboration between Nashville Public Radio and KFF Health News.

This story was published by KFF Health News on March 16, 2026. It is republished with permission.
