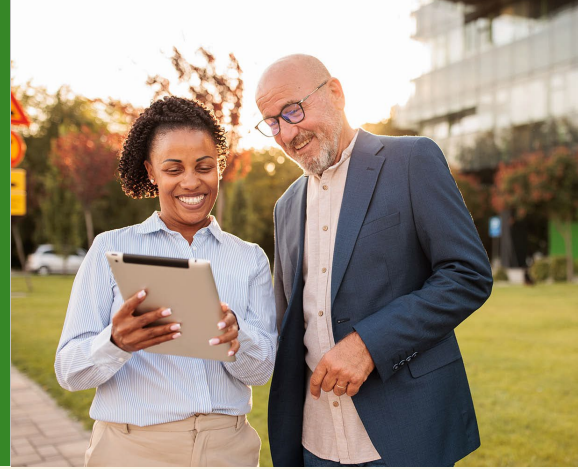


Fidelity Health®

Unlocking the full potential of health savings accounts



Overview

As health care costs continue to rise, health savings accounts (HSAs) continue to be an effective tool for helping employees manage their health care expenses. Although many employees understand how health savings accounts can help them save for health care costs today, fewer understand how an HSA can also support their long-term financial well-being.

In this guide we'll provide four ways employers can help educate employees on how an HSA can help support their financial well-being today, tomorrow, and into retirement.

1 Help employees understand what kind of HSA user they are

One of the benefits of an HSA is that it is a multipurpose spending, saving, and investing tool. However, this flexible nature can also make it challenging for employees when it comes to determining the best way to use their HSA to support their specific needs.

The goal for employers is to help employees understand how HSAs work and how to evaluate their own particular needs. A good first step is to help employees understand what kind of HSA user they are.

Employees typically use their HSA in 1 of 3 ways:



To help pay for current qualified medical expenses



To help save for potential medical emergencies or planned procedures



As an investment vehicle to help pay for future health care expenses in retirement

Even though an employee may consider one of these as their main reason for using an HSA, they aren't mutually exclusive. It's also important to remind employees that there's no single or "right" way to use an HSA.

In fact, how employees use their HSA will likely change over time based on their life stage, circumstances, and financial goals. At Fidelity, employees can use the [Fidelity Health® App](#) to monitor their HSA balance and easily keep track of their HSA savings and spending.

2 Demonstrate how HSAs can help with retirement planning

In a recent survey from Fidelity Health® Thought Leadership, health benefits leaders were asked how their employees' HSA knowledge had improved over the past five years. The research found that 67% of benefits leaders whose companies offer HSA-eligible health plans said their employees better understand how HSAs can help them save money on health care costs. However, just 38% believed their employees are better educated about an HSA's utility in retirement.¹

In another survey of plan participants, almost all employees agreed that they need more than just a 401(k) to save for retirement, but only 56% believe that investing in their HSA is as important as contributing to their 401(k)—even though HSAs have a leg up when it comes to tax benefits.²

56%

believe that investing in their HSA is as important as contributing to their 401(k)—even though HSAs have a leg up when it comes to tax benefits.²

Considering the above, as well as the fact that the average individual will need \$172,500 to pay for health costs in retirement³ and nearly one-third of 401(k) hardship withdrawals are due to medical costs⁴—the importance of helping employees understand how they can use an HSA to help save for retirement becomes even more clear.

A helpful way to convey this is to position the health savings account as both a health care savings tool and a retirement planning tool within your employee benefits education and communication strategy. You can do so by:



Including the HSA in the packaging of your company's retirement planning benefits



Encouraging employees to think of the HSA as another tool in their retirement planning toolbox



Illustrating how HSAs can help protect 401(k) savings

Here are several points to consider when it comes to educating employees on how contributing to an HSA can help protect and bolster retirement savings:



HSAs can help employees not dip into their retirement savings.

Employees can use money from their health savings account to help pay for planned and unplanned medical procedures. When HSA funds are used to pay for qualified medical expenses, employees aren't taxed on their withdrawals, whereas withdrawals from a 401(k) are subject to taxes and potential early withdrawal penalties.



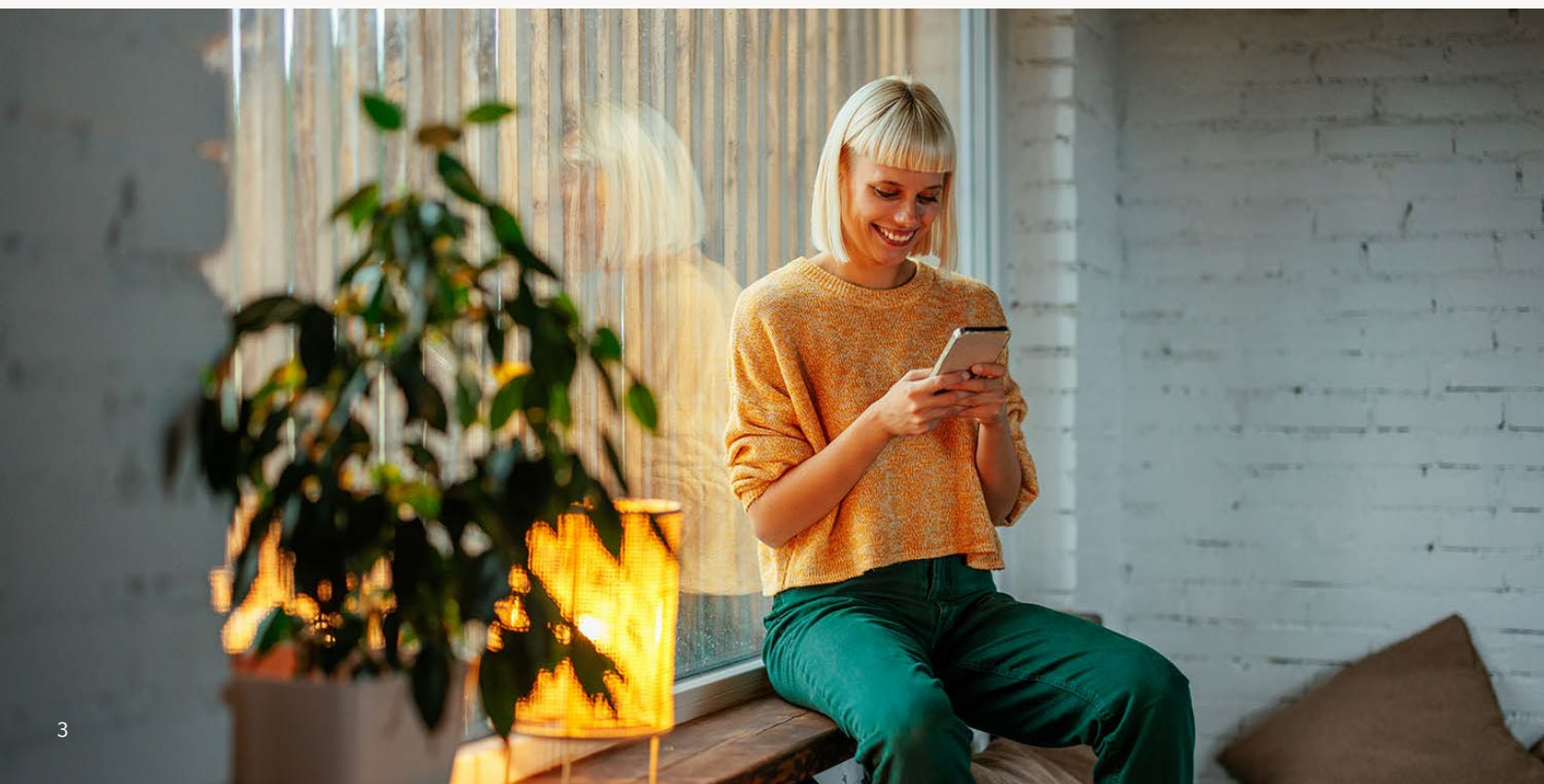
HSAs can help employees save more of their money for retirement.

HSAs offer a triple tax advantage that is hard to beat: Not only are HSA contributions tax-deductible, which lowers employees' taxable income, but any investment growth within the account is also tax-free, along with withdrawals for qualified medical expenses.⁵



HSAs offer financial flexibility in retirement.

HSAs do not have a required minimum distribution that individuals must take once they reach age 73, unlike traditional IRAs and 401(k)s.



3

Educate employees on how investing their HSA funds can help them maximize the value of their HSA

A number of factors influence why employees opt to invest or not invest their HSA funds, including life stage, current situation, and past experiences. The motivation for employees who do choose to invest their HSA funds falls into two main categories: long-term wealth building and saving for potential medical costs.⁶

In fact, 81% of employees who invest all or part of their HSA funds said that doing so makes them feel more prepared for retirement.⁷ However, almost half of those with an HSA (48%) are not investing their funds.⁸ The top reason participants cited for not investing their HSA funds was that they didn't know enough about the advantages (41%), followed by that they already have other avenues for retirement investing (36%).⁹ These trends underscore the need for increased awareness around HSA investing and how it can help employees boost their long-term savings and readiness for retirement.

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of employees who invest all or part of their HSA funds said that doing so makes them feel more prepared for retirement.⁷

Below are several points to consider when it comes to educating employees on the benefits of investing HSA funds:



Investing can help them make the most of their HSA. If an employee keeps all of their HSA funds in cash, not only are they missing out on tax-free growth potential, but it's likely that the value of their cash isn't even keeping up with inflation.



HSA investing isn't "all or nothing." Employees can split their HSA contributions into invested funds (which can be used for long-term savings for health care costs in retirement) and cash (so they can pay for qualified medical expenses directly from their account). For employees who are just getting started with investing, reading about the [ways to use their health savings account](#) can help them decide how much of their HSA funds they should consider keeping in cash versus investments.



Fidelity Investments® makes it easy to get started with investing. Fidelity's HSA does not require a minimum to start investing, and there are no account fees associated with investing.¹⁰ Employees who currently have the Fidelity HSA® through their workplace benefits program can log in to NetBenefits® to view their investment options.



4 Get to know the needs of your employee population

Understanding the different segments of your employee population—and their various motivations for saving or investing with their HSA—can help you develop an effective education strategy.

A good place to start is by defining the points along the health care and retirement planning journey where an HSA can serve as a valuable tool. Then align your employee education and support strategies to meet the needs of the various segments within your employee population.

Create a year-round employee engagement strategy

Getting employees to the point where they can take full advantage of a health savings account requires a significant investment in education and communication, particularly when it comes to more complex use cases such as investing funds in an HSA for long-term growth. Employers should approach HSA education and employee engagement as a year-round initiative, with annual enrollment being just the beginning.

The following are several ideas for building an employee education and support plan:



Survey employees about their satisfaction with their current health benefits, including why they may (or may not) use an HSA and their personal priorities for the upcoming year. Doing so can uncover insights to help connect with certain segments within your employee population. For example, understanding why employees don't invest provides direction on how to craft better education campaigns.



Take advantage of decision support tools or enrollment counselors during annual enrollment to help employees consider not only their current health savings needs but their long-term financial needs as well.



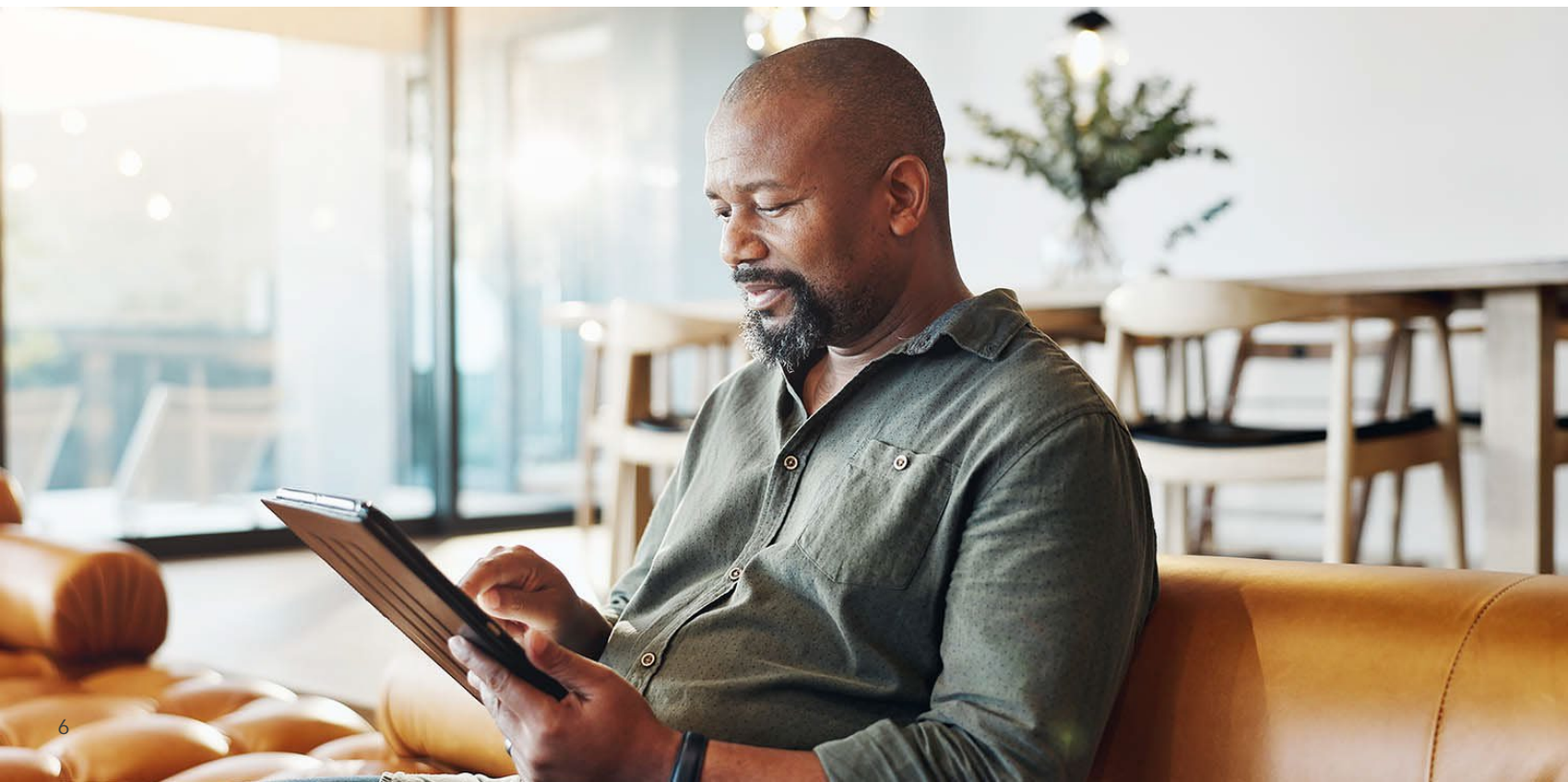
Develop personalized communications that clearly connect how an employee's health savings account could support their specific needs, such as how investing their HSA funds may align with their personal priorities or upcoming life events.



Fidelity's HSA employee engagement and education program is also designed to support participants throughout their HSA journey and includes Fidelity-deployed campaigns as well as off-the-shelf materials and toolkits. [Learn more.](#)

Access the full Fidelity Health® Thought Leadership report for further analysis and insights on how you can help employees understand, embrace, and maximize their HSA. [Download report.](#)

For more information, **reach out to your client service team.**



¹ Fidelity Health Thought Leadership Benefits Leader Survey, winter 2024, Q19: "In what ways has your employees' knowledge of HSA-eligible high-deductible health plans changed over the last five years? Please select all that apply." Sample included 605 health benefits leaders of employers offering HSA-eligible high-deductible health plans

² Fidelity Health Thought Leadership Benefit Plan Participant Survey, fall 2023, Q5: "Please rate your agreement with the below statements about HSAs." Sample included 1,523 consumers with an HSA.

³ Estimate based on a single person retiring in 2025, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2020 as of 2022. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer-provided retiree health care coverage but do qualify for the federal government's insurance program, original Medicare. The calculation takes into account Medicare Part B base premiums and cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services, excluded by original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

⁴ Fidelity Investments client data from 2023 defined contribution & tax-exempt market transaction payment dates.

⁵ With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation.

⁶ Fidelity Health Thought Leadership Benefit Plan Participant Survey, fall 2023, Q4b: "You may have already mentioned this, but why did you decide to invest the funds in your HSA?" Sample included 787 consumers with an HSA with partial or total funds invested.

⁷ Fidelity Health Thought Leadership Benefit Plan Participant Survey, fall 2023, Q5: "Please rate your agreement with the below statements about HSAs." Sample included 787 consumers with an HSA with partial or total funds invested

⁸ Fidelity Health Thought Leadership Benefit Plan Participant Survey, fall 2023, Q4d: "Why did you decide not to invest the funds in your HSA?" Sample included 736 consumers who did not invest HSA funds.

⁹ Fidelity Health Thought Leadership Benefit Plan Participant Survey, fall 2023, Q4d: "Why did you decide not to invest the funds in your HSA?" Sample included 736 consumers who did not invest HSA funds.

¹⁰ There may be mutual funds or other investments that require a minimum amount to invest, but Fidelity does not require a minimum to start investing. Account transaction fees refers to fees for account features such as account opening, funds transfer, debit cards, excess contributions, etc. and does not include recordkeeping fees, which may be charged to employers. Employers may choose to pass recordkeeping fees on to employees. Commissions and other expenses associated with transacting or holding specific investments (e.g., mutual funds) may apply. Refer to the fees and commission schedule for additional detail at www.fidelity.com/trading/commissions-margin-rates.

The information provided in this article is general in nature. It is not intended, nor should it be construed, as legal or tax advice.

The information and examples provided throughout are not all-inclusive and may be subject to change. We encourage you to review information in IRS Publications 502 and 969 online at www.irs.gov, or you can call IRS Forms and Publications at 800-829-3676 to request a copy of each. Also, because the administration of an HSA is a taxpayer responsibility, account holders are responsible for the tax consequences of distributions from their HSA, and may want to consult a tax professional if they need specific tax advice.

Investing involves risk, including risk of loss.

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