

IRA to HSA Rollover: A Hidden Retirement Strategy Explained

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While an IRA-to-HSA rollover can help with health care costs, it's not for everyone. Learn if it's right for you.

Bob Powell: What is an IRA to HSA and when might you consider doing it? Well, here to talk with me about that is Amy Sheppard from Sensible Money. Amy, welcome. Hi there. So, it's an interesting topic because not very many people know that you can convert your IRA to an HSA. Tell us more.

Amy Shepard: Hi, Bob. Well, not very many people know. So a client asked about this. And I was like, no, I don't think you can do that. And then she said, well, I found something online that says you can. So of course, I looked into it. And it is not a common thing, but it is something you can do. So you can actually take assets from your IRA and roll them into an HSA. It is something that is available. But the reason I think I have not heard of it before because it doesn't really make sense for a lot of people. But we'll talk through the details. you know, I think.

Powell: Yes, like many things, having to do with money, there lot of rules and requirements that we need to think about first.

Shepard: There are, yes, always lots of rules. So one of the big ones with an IRA to HSA rollover is you can only do it once in your lifetime. So you want to be sure it makes sense if you're going to do it because you don't get another chance. That's one of the restrictions. Another restriction is a common thing with anything HSA related. In order to do the IRA to HSA rollover, you have to be covered by an HSA eligible plan.

Just like regular funding of an HSA, if you do the rollover from your IRA, you're subject to the annual limits. So for the new year 2025, the limits are \$4,300 if you have individual coverage or \$8,550 if you have family coverage. That's another one of the limits. There's a benefit, I guess, if somebody decides to fund their HSA with an IRA rollover.

There are some benefits if they do have family coverage. If you have family coverage, you

could do more. If you're age 55 or older, you get an extra \$1,000 catch-up contribution. So you can do more. So that may be something that people consider what type of coverage they have. If they want to do this, do they want to use their once-in-a-lifetime opportunity to do it? If they only have individual coverage, where maybe in a future year, they might have family coverage. So do think that that factors in.

I think one of the big things is that if you fund your HSA via IRA rollover, you don't get a tax deduction. So if you think of your IRA assets, for the most part, IRA money is pre-tax money. So the IRS says, well, hey, we'll let you do this, but the money you're funding your HSA with is already pre-tax. You're not going to get another tax deduction. But the benefit is once the money is in the HSA, now it can grow tax free if you use it in 10, 15, 20 years down the line for healthcare costs later in retirement, you do get the benefit of having all those years of tax-free growth within the HSA.

Powell: There's something to do with a testing period.

Shepard: There is a testing period too. So this one's important. So with the IRA to HSA rollover, if you do it, you have to then stay in an HSA eligible plan for 12 months after you do the rollover. So that's really important. Like if you're planning on changing your health insurance, this might not make sense for you if you switch to something that's not HSA eligible in less than 12 months because then you're not allowed to do it.

The biggest consideration there is Medicare. So those that are approaching Medicare age, if you're going to be switching to Medicare in less than 12 months, you're automatically disqualified from doing this because once you switch to Medicare, there are no Medicare plans that are HSA eligible. So if you were to do this IRA to HSA rollover and then say go on Medicare in six or seven months, it's disqualified. And now that IRA to HSA transfer becomes a taxable event. You can't do it unless you maintain HSA-eligible coverage for at least 12 months after.

Powell: You mentioned that this rollover is for some people and not for others. us, us through that.

Shepard: Yes, so I think that the types of clients I work with in my line of work, I think I hadn't been familiar with it because it doesn't make sense for most of them. So I do work with affluent retirees and for them, it doesn't usually make sense because most of them have cash in other places. So sure, they could take money from their IRA and move it over to their HSA, but they can also take cash from a savings account or a brokerage account, checking account and use that to fund their HSA. And in most of their cases, that makes more sense because they get all three tax benefits of HSA funding if they're funding it with cash. People often talk about an HSA in the triple tax benefits. So if you fund it with cash,

after tax money, you get a tax deduction in the year you fund it. You get your growth tax deferred.

And then later in life, later in retirement, if you take the money out of the HSA for qualified medical expenses, you get tax-free withdrawals. And so that's why it doesn't make sense for a lot of the clients I work with. Like anything, there are some situations where it does make sense. And I think a situation where this could make sense for somebody is if money is tight. So if you think of somebody whose only assets really are in an IRA, they don't have an emergency fund. They don't have cash in the checking account. But they're starting to look at their retirement and they're thinking, you know what, I could really use some money in an HSA. I could put money in there from my IRA and just let it grow for use later in retirement. That's when I think it could make sense. Basically, if you don't have any other cash to fund an HSA, you do have IRA assets. You can take advantage of this kind of once in a lifetime opportunity to tuck a few thousand dollars over into an HSA and then essentially kind of let it ride. So you have maybe a bigger pot of tax-free money to use on healthcare costs later in retirement.

Powell: Yes. So when you think about executing this kind of rollover, oftentimes people have their HSA with their employer and their IRA outside of their employer. It does take a little bit of juggling, I suppose, to get the money from one place to the other, or is that not the case?

Shepard: So I think it is, and I couldn't find a ton of information on this topic online, but one of the things I did come across said that because it's so infrequent that people do this, sometimes it requires phone calls. There's not standard paperwork on every custodian's website to initiate it. So sometimes if you want to do it, you might be able to find a form. Other times you might have to actually pick up the phone and call and probably educate someone on the other end of the phone of what you're doing, because most people don't come across this too often.

Powell: Yes, just as an outsider looking in, I'm thinking given that the anticipated healthcare costs in retirement could amount to like 250 or \$400,000, transferring such a small amount of money doesn't really put a dent in the potential healthcare expenses that occur later in retirement, but it is an option.

Shepard: You're right. Another reason why it's not a very well known or commonly utilized thing because you know if you think of somebody who is 55 or older, they can put an extra thousand dollars in. If they only have individual coverage, you know we're talking about \$5,300. So they can move that over from their IRA into their HSA and you know if they live to be in their nineties, maybe that \$5,000 can turn into 20 or \$30,000 over decades. But

yeah, even at that scale, it barely puts a dent in the total expected costs, you know, for healthcare and retirement.

Powell: Yes. So, we covered a lot of ground. Anything we missed or bears reemphasizing?

Shepard: I don't think so. I think that covers it.
