

Using an HSA to Fund LTCi: A Smart, Tax-Friendly Strategy

If your clients have a Health Savings Account (HSA), or qualify to open one, they may have a valuable opportunity to use pre-tax dollars to pay for some or all of their Long-Term Care Insurance (LTCi) premiums. This can be especially helpful for clients who aren't able to deduct those premiums on their federal tax returns, whether due to income limits, itemization rules, or employment status.

Deducting Long-Term Care Insurance Premiums

Getting a tax break on LTCi premiums isn't always straightforward. While premiums for qualified policies are considered deductible medical expenses under IRS rules, they're only deductible if:

- The client itemizes deductions, and
- Their total unreimbursed medical expenses, including LTCi premiums, exceed 7.5% of their adjusted gross income.
- Or they are self-employed.

Even then, only the lesser of the actual premium paid or the IRS's age-based limit counts. For many clients, the deduction ends up being minimal — or unavailable altogether.

The HSA Advantage

Here's where an HSA can make a real difference. Qualified LTCi premiums are considered eligible medical expenses, which means clients can use HSA funds to pay them tax-free.

It's a way to bypass the limitations of itemized deductions and still get a tax benefit.

Confirm HSA Eligibility

To use this strategy, your client must either have an HSA or be eligible to open one.

Contribution Limits

For 2026, clients can contribute up to:

- \$4,400 for individual coverage¹
- \$8,750 for family coverage²
- Plus a \$1,000 catch-up contribution if they're age 55 or older



¹Source: IRS Section § 223(b)(2)(A)

²Source: IRS Section § 223(b)(2)(B)

Tax Benefits of HSAs

HSAs offer triple tax advantages:

- Contributions are tax-deductible (or pre-tax if made through payroll).
- Growth inside the account is tax-free.
- Withdrawals for qualified medical expenses, including LTCi premiums, are also tax-free.

It's worth noting that non-qualified withdrawals are taxable and subject to a 20% penalty, unless the client is over age 65, disabled, or deceased.

Additional Considerations

- Employer contributions must meet IRS comparability rules.
- Clients who are eligible on December 1 can contribute the full annual amount.
- A one-time, tax-free transfer from an IRA to an HSA is allowed, up to the annual contribution limit.
- Unlike FSAs, HSA balances roll over year to year—there's no “use it or lose it.”

IRS Limits on Tax-Free Withdrawals from an HSA

Clients can withdraw funds tax-free from their HSA to pay qualified LTCi premiums. Just keep in mind:

- Only the portion of the premium that meets IRS age-based limits qualifies.
 - 2026 limits³:
 - Age \leq 40 : \$500
 - Age 41 – 50 : \$930
 - Age 51 – 60 : \$1,860
 - Age 61 – 70 : \$4,960
 - Age \geq 71 : \$6,200
- Withdrawals must match the lesser of the actual premium paid or the IRS limit.

This strategy can be a great way to help clients fund long-term care coverage while maximizing tax efficiency.

³Source: IRS Section 213(d)(1)(D)

Paying Thrivent LTC Premiums with HSA

If your client's Health Savings Account (HSA) includes a routing and account number like a traditional bank account, they may be able to pay their Thrivent long-term care insurance premiums directly from the HSA. However, some clients encounter difficulties when attempting direct payment through their HSA. As a result, many choose to pay the premiums by check and then reimburse themselves from their HSA funds.

Hypothetical example

Dan, 62, and Stacy, 58, decided to use their Health Savings Account (HSA) to help cover the cost of their long-term care insurance premiums. Under IRS guidelines, HSA funds can be withdrawn tax-free to pay for qualified LTC premiums, making this a smart way to reduce out-of-pocket expenses. Dan's annual premium is \$2,048, while Stacy's is \$2,952. The chart below outlines how much of each premium qualifies for HSA reimbursement based on their ages.

Dan, Age 62, Male, Annual Premium \$2,048

Age	Premium paid from HSA	Premium paid out-of-pocket
62	\$2,048	\$0
63	\$2,048	\$0
64	\$2,048	\$0
65	\$2,048	\$0
66	\$2,048	\$0
67	\$2,048	\$0
68	\$2,048	\$0
69	\$2,048	\$0
70	\$2,048	\$0
71	\$2,048	\$0

Stacy, Age 58, Female, Annual Premium \$2,952

Age	Premium paid from HSA	Premium paid out-of-pocket
58	\$1,860	\$1,092
59	\$1,860	\$1,092
60	\$1,860	\$1,092
61	\$2,952	\$0
62	\$2,952	\$0
63	\$2,952	\$0
64	\$2,952	\$0
65	\$2,952	\$0
66	\$2,952	\$0
67	\$2,952	\$0

**LTC premiums based on \$4,500 monthly benefit, 36 month benefit multiplier, 90 day elimination period, Annual Increase Benefit for inflation of 3%, Couple's discount of 20%.*

Note: The HSA reimbursement limits increase at age 61, allowing Stacy to cover a larger portion of her premium tax-free.

Thrivent provides advice and guidance through its Financial Planning Framework that generally includes a review and analysis of a client's financial situation. A client may choose to further their planning engagement with Thrivent through its Dedicated Planning Services (an investment advisory service) that results in written recommendations for a fee.

The concepts in this presentation are intended for educational purposes only. They may not be suitable for your client's particular situation. The suitability of any specific product or strategy will be dependent upon your client's particular situation.

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