



HSA GPS Fact Sheet Series

HSAs and Estates

A major advantage that Health Savings Accounts (HSAs) enjoy over other medical reimbursement accounts is that they are individually owned trusts rather than notional arrangements owned by an employer. Because HSAs are trusts, they outlive their owner, and balances can be passed to one or more beneficiaries designated by the owner. In this paper, we travel to the intersection of HSAs and estate planning to understand what HSA owners can do during their lifetime to ensure that their balances pass to their chosen beneficiaries and what those beneficiaries in turn can do with the funds.

1. What happens to my HSA when I die?

Your HSA is a trust that you own. As with any trust, you name a beneficiary when you're alive. You can designate any individual or organization as your beneficiary and change your primary or contingent beneficiaries at any time when you're alive. The assets bypass probate and are directed to the beneficiary.

2. What are the tax consequences to the beneficiary?

It depends on whom you designate as beneficiary. If you name your spouse, the HSA passes intact to him (whether or not he's HSA-eligible at the time of your passing). He then uses the HSA on the same terms and conditions, with the same benefits and responsibilities, as you or any other HSA owner.

If you name any other individual or entity as your beneficiary, your HSA still avoids probate. Your executor directs liquidation of the HSA, and assets are distributed to your beneficiary. Your beneficiary may incur a tax liability. Because the account is no longer an HSA, your beneficiary doesn't enjoy the tax advantages associated with an HSA and faces no additional tax consequences when spending the money.

3. What happens if I don't name anyone as a beneficiary, or my beneficiary isn't able to inherit the account (for example, the beneficiary predeceases me, can't be found, etc.)?

Your HSA is liquidated and becomes part of your estate. Funds are distributed according to your estate plan (or, if you die intestate, the laws of the state that govern your estate).

4. Can my heirs pay my qualified expenses from my HSA after I die?

Yes. Your heirs can reimburse tax-free any qualified expenses that you incurred prior to your passing. The estate has up to one year from the date of your death to make these distributions. This strategy of paying your final bills may make sense when the beneficiary isn't your surviving spouse and therefore the beneficiary faces a tax consequence upon receipt of the proceeds from your HSA. If your surviving spouse is your beneficiary, it may be more advantageous to him to reimburse your final expenses with estate funds and keep your HSA balances under the tax protection of his new HSA.

5. If my surviving spouse inherits my HSA, does he face any mandatory distributions at a certain age, as he does with a traditional 401(k) plan or traditional IRA?

No. HSA owners never face mandatory distributions, as owners of traditional 401(k) plans and traditional Individual Retirement Arrangements (IRAs) are required to make.

6. Whose expenses can my surviving spouse reimburse tax-free from his inherited HSA?

He can reimburse his own and his tax dependent's expenses tax-free. If he remarries, he can reimburse his new spouse's qualified expenses tax-free, as long as the expenses are incurred on or after their wedding day. He can also reimburse his new spouse's tax dependents' (typically minor children) expenses tax-free from his HSA as long as they're also his tax dependents and they incur the qualified expenses on or after the wedding day.

This information is accurate as of Nov. 5, 2018. Please note that this discussion is for informational purposes only and is based on current regulations. It doesn't represent, and shouldn't be construed as, a substitute for professional advice. Please consult your personal legal, financial, or tax counsel to discuss your personal situation and refer to IRS Publication 969.

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