benefit strategies LLC

HSA GPS Fact Sheet Series

HSAs and Rollovers from Other Accounts

Health Savings Account (HSA) owners who want to maximize their account balances and minimize their immediate or long-term tax liabilities have some opportunities and face some important restrictions in their financial planning. In this paper, we look at the intersection of HSAs and the rollover of balances from certain medical reimbursement or retirement accounts to determine which transactions are prohibited, which are allowed, and the rules governing permitted transactions.

1. Can I roll over my unused balances from this year's Health FSA to my new HSA?

No. Current tax law doesn't permit rollovers from a Health FSA to an HSA.

2. Can I roll over my unused balances from this year's Health Reimbursement Arrangement (HRA) to my new HSA?

No. Current tax law doesn't permit rollovers from an HRA to an HSA.

3. Can I roll over balances from a Medical Savings Account to my HSA?

Yes. If you own an MSA (a forerunner of HSAs) and have a balance, you can roll those funds into your HSA. The rollover isn't a taxable event.

4. Can I roll over balances from one HSA to another?

Yes. Although most people maintain only a single HSA for convenience and to reduce administration fees, you can own more than one account. People who own more than one HSA do so because they either (a) have switched jobs and haven't moved funds from their old employer’s preferred HSA administrator to the new company’s HSA partner or (b) want to take advantage of investment options not offered by the HSA administrator chosen by their employers.

You have two choices in moving funds from one HSA to another:

- *Trustee- to-trustee transfer:* You instruct one trustee to request funds from another trustee. You never take possession of the funds. You can make an unlimited number of trustee-to-trustee transfers, which don’t constitute a taxable event.

- *Rollover: You request a dis*tribution from one trustee and take possession of the money. You must then deposit the funds into another HSA within 60 days, or the entire distribution is included in your taxable income and subject to an additional 10% penalty if you’re not age 65 or disabled. You can complete one rollover between HSAs per year.

5. Can I roll over funds from a retirement account to an HSA?

Yes, but only from a single Individual Retirement Arrangement (IRA). If your have balances in another account or in multiple IRAs, you may be able to consolidate funds into a single IRA to execute the transfer. You can’t roll over funds from other retirement accounts into an HSA. If you can roll funds from those other accounts into an IRA under federal law, you then can make the one-time rollover from that IRA into your HSA without tax implications (if done correctly).

6. Are there restrictions on IRA-to-HSA rollovers?

Yes. You should discuss your situation with your legal, tax, or financial counsel before moving balances to make sure that the rollover is appropriate given your situation and ensure that you follow all applicable rules.

- The rollover counts against your annual contribution limit. You can’t roll over more than $3,500 (self-only coverage) or $7,000 (family coverage) in 2019, plus an additional $1,000 if you’re age 55 or older, less contributions from other sources (including pre-tax payroll deductions, personal contributions, and employer contributions).

- You’re limited to one rollover per lifetime. (Exception: If you make a contribution when covered by a self-only contract and then transition to a family contract during the same year, you can make a second rollover up to a total of the statutory contribution limit for a family contract.)

- You must remain HSA-eligible for a full 12 months (the “testing period”) following the month of the rollover. If you lose eligibility during the testing period, the entire rollover is considered a premature IRAwithdrawal. It’s included in your taxable income in the year that you lose eligibility and is subject to an additional 10% tax (unless your loss of eligibility is due to your disability or death).

7. Does it matter whether the rollover is from a traditional or Roth IRA?

Legally, no. Financially, it might. Be sure to discuss your situation with your legal, tax, or financial counsel before rolling over funds. Your contributions to a traditional IRA were most likely federal- and state-income-tax-deductible, and distributions are always taxed as ordinary income. By rolling over funds from a traditional IRA to an HSA, you avoid taxes on distributions for qualified expenses and aren’t required to make mandatory distributions beginning at age 70½. Thus, you enjoy tax benefits and preserve your balances.

Roth IRA contributions are made with after-tax dollars, and distributions are tax-free for *any* expenses without mandatory distributions at any age. Thus, rolling over Roth IRA balances to an HSA can reduce your distribution flexibility and result in a new tax liability if you distribute funds for non-qualified expenses.

For more information about IRA-to-HSA rollovers, read *IRS Notice 2008-51* at www.irs.gov.

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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