



HSA and Estates

A major advantage that Health Savings Accounts (HSAs) enjoy over other reimbursement accounts is that they are individually owned financial assets rather than notional accounts 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 while you're still living. You can designate any individual or organization as your beneficiary. 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 your spouse (whether or not your spouse is HSA-eligible at the time of your passing). Your spouse 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 the 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 without a will, the laws of the state that governs your estate).

4. Can my heirs pay my eligible expenses out of my HSA after I die?

Yes. Your heirs can reimburse tax-free any eligible expenses that you incurred prior to your passing. The estate has up to one year to make these distributions. This strategy of paying

your final bills may make sense when the beneficiary isn't your widow and therefore the beneficiary faces a tax consequence upon receipt of the proceeds from your HSA. If your widow is your beneficiary, it may be more advantageous to her to reimburse your final expenses with estate funds and keep your HSA balances under the tax protection of your widow's new HSA.

5. If my widow inherits my HSA, does she face any mandatory distributions at a certain age, as she does with, for example, a qualified retirement account?

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

6. Whose expenses can my widow reimburse tax-free from her HSA?

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

This information is accurate as of April 1, 2017. 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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