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 health reimbursement or retirement accounts to determine which transactions are prohibited, which are allowed and the rules governing allowed transactions.

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

No. Internal Revenue Service (IRS) regulations don't allow rollovers from a Health FSA to an HSA.

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

No. IRS regulations don'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.

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

Yes. While most individuals maintain only a single HSA for convenience and to reduce administration fees, you can own more than one account. Typical scenarios include individuals who (a) switch jobs and haven't moved funds from their old employer's preferred HSA trustee to the new employer's preferred HSA 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.

- *Rollover:* You request a distribution 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 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 qualified 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.

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

Yes. You should discuss your situation with your legal, tax or financial counsel before rolling over funds 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, which means that you can't roll over more than $3,400 (projected $3,450 in 2018) if you have self-only coverage or $6,750 (projected $6,850 in 2018) for family coverage, plus an additional $1,000 If you're age 55 or older, less contributions from other sources (including 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 amount is 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 disability).

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 tax-deductible, while distributions are always taxed as ordinary income. By rolling over funds from a traditional IRA to an HSA, you avoid taxes on distributions for eligible expenses and aren't required to make mandatory distributions beginning at age 70½. Thus, you enjoy tax benefits while preserving your balances.

Roth IRA contributions are made with after-tax dollars, while 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 flexibility and result in a new tax liability if you distribute funds for non-eligible expenses.

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

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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Benefit Strategies, LLC