# ABCs of HSAs: How an HSA can benefit your estate plan

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One health care arrangement that has been soaring in popularity in recent years has been the pairing of a high-deductible health plan ("HDHP") with a Health Savings Account ("HSA"). The good news is that not only does an HSA provide a tax-advantaged way to pay for health care costs, but it also can help you achieve your estate planning goals.

**How does it work?**

An HSA can be offered by an employer, or an individual can set up his or her own account, similar to an IRA. Contributions to an employer-sponsored HSA are pretax and may be made by employers, employees or both. If you set up your own HSA, you can deduct your contributions.

An HSA must, however, be coupled with an HDHP. For 2017, to qualify as an HDHP, a plan must have a minimum deductible of $1,300 ($2,600 for family coverage) and a $6,550 cap on out-of-pocket expenses ($13,100 for family coverage).

Even if you have HDHP coverage, you generally won't be eligible to contribute to an HSA if you're also covered by any non-HDHP health insurance (such as a spouse's plan) or if you're enrolled in Medicare.

For 2017, the maximum HSA contribution is $3,400 ($6,750 for family coverage). If you're age 55 or older, you can make additional "catch-up" contributions of up to $1,000.

The HSA funds can bear interest or be invested on a tax-deferred basis. You can make tax-free withdrawals to pay for qualified medical expenses. Unused funds may be carried over from year to year, continuing to grow tax-deferred.

Withdrawals before age 65 not used for medical expenses will be subject to income tax and a 20% penalty. But after age 65, the penalty won't apply. Essentially, to the extent you don't need the funds for medical expenses before age 65, an HSA serves as a supplemental IRA.

**What are the estate planning benefits?**

Like an IRA or a 401(k) plan account, HSAs with unused balances can supplement your retirement income or continue growing on a tax-deferred basis for the future benefit of your family. Unlike most other retirement savings vehicles, however, there are no required minimum distributions from HSAs, potentially allowing you to leverage tax-deferred compounding to build up a larger account for your heirs.

Carefully consider your HSA's beneficiary designation. When you die, any remaining HSA balance becomes the beneficiary's property. If the beneficiary is your spouse, your HSA becomes his or her HSA and is taxable only to the extent he or she makes nonqualified withdrawals.

If the beneficiary is someone other than your spouse, however, the account no longer will qualify as an HSA. The beneficiary must include the account's fair market value in his or her gross income. But if he or she is in a lower income tax bracket than you were, this still may save tax overall for your family.

Please contact us for additional details regarding HSAs.



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