HSAday
OCTOBER 15

HSA Beneficiary 101 for Participants

Have you designated a beneficiary for your HSA? Did you know that you could?

Upon your death, your HSA funds can be used for any qualifying healthcare costs that you incurred up to that date. But what about the remaining unused funds in your account?

If you have designated a beneficiary, those remaining funds will be given to that individual, organization, trust or estate. There may be some state specific rules regarding beneficiary designations so you should check with your HSA provider for more information. There are also possible tax implications for the beneficiary.

In general:

Spouse Beneficiary Designation
If you designate your spouse as your HSA beneficiary, they will inherit your HSA tax-free. They can continue to use the HSA for their healthcare needs. Should they withdraw funds for nonqualified healthcare costs, they may be subject to IRS penalties and taxes if younger than 65.

Non-Spouse Beneficiary Designation
When your beneficiary is not your spouse, the HSA account must be closed upon your death. The beneficiary must withdraw the remaining balance and income tax is assessed on the Fair Market Value of the account balance.

Multiple Beneficiary Designations
You can also designate more than one beneficiary. Primary beneficiaries are the first individuals who would receive the funds. Contingent beneficiaries would receive the funds if the primary beneficiary had passed away or could not be located. If you designate multiple primary or contingent beneficiaries, you allocate a percentage to each that in total adds up to 100%.

No Beneficiary Designation
What if no beneficiary is designated? Your HSA provider may have specific rules that apply, or your employer's plan document may state how a beneficiary will be determined. Your estate may ultimately be named as the beneficiary, or the account funds may go to probate for the probate court to determine how to disburse.

To avoid this type of indecision, designating a beneficiary upfront protects your wishes. Beneficiaries can avoid the time and expense of the probate process. You are determining who the recipients are and not a plan document or a vendor!

Changing Beneficiaries

You can change your beneficiary designations at any time. A good time to review your beneficiary designations is during annual open enrollment or after a major life event – marriage, divorce, addition of a child, etc.

Beneficiaries for Other Benefits

Don't forget to designate beneficiaries for any life insurance or retirement accounts that you may have – 401(k), 403(b), pension, etc. as well. While there may be different tax implications for beneficiaries of these types of accounts, having beneficiaries that you have designated is important.

Remember – naming beneficiaries ensures that your money is distributed the way you want, and not determined by the plan. An estate planning professional or an expert tax advisor can best assist with financial questions. But, the most important task for you is to ACTIVELY designate beneficiaries for ALL your accounts.