

Abstract: A Health Savings Account (HSA) coupled with a high-deductible health plan can be a powerful tool for funding medical expenses on a tax-advantaged basis. But there's also a "hidden" advantage of HSAs, or at least one that many people overlook: They can play a helpful role in estate planning.

Do you know the "hidden" advantage of HSAs?

A Health Savings Account (HSA) coupled with a high-deductible health plan can be a powerful tool for funding medical expenses on a tax-advantaged basis. For 2020, individuals with self-only coverage can make up to \$3,550 in tax-deductible contributions to an HSA, while those with family coverage can contribute up to \$7,100. These limits are increased by \$1,000 for individuals 55 or older.

Funds may be withdrawn tax-free to pay qualified medical expenses. Once you reach age 65, you can withdraw funds penalty-free for any purpose (subject to tax if not used for qualified medical expenses).

But there's also a "hidden" advantage of HSAs, or at least one that many people overlook: These accounts can play a helpful role in your estate plan. HSAs have an advantage over traditional IRAs and 401(k) plans in that they're not subject to required minimum distributions at age 72. This means, to the extent you don't use the account for medical expenses, the account can continue growing on a tax-deferred basis indefinitely — providing valuable benefits for your loved ones.

If your spouse inherits the account, it will be treated as his or her own HSA. If someone else inherits it, the HSA will terminate and the recipient will be taxed on its value, less any qualified medical expenses of the decedent paid by the transferee within one year after the date of death.

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