

HSA's

Health Savings Accounts & FDIC Insurance

Sample

Questions & Answers

What is a Health Savings Account (HSA)?

An HSA is a tax-exempt trust or custodial account established for the purpose of paying medical expenses in conjunction with a high-deductible health care plan.

It is a quasi-trust account established on behalf of a specific person. It is an individual account. It is not a joint account. The HSA has the special feature that any funds withdrawn to pay the qualified medical expenses of the HSA account owner, his or her spouse, or any dependent, will be tax free.

How is an HSA insured for purposes of the FDIC insurance rules?

The FDIC coverage rules which apply to a revocable trust account will apply to an HSA if the HSA qualifies as a revocable trust for FDIC insurance purposes. The depository funds within an HSA are insured up to \$100,000 per HSA account owner per beneficiary, if certain requirements, as discussed below, are met.

If the HSA fails to qualify as a revocable trust, then a person's HSA will be aggregated with his or her other single accounts and will be subject to that \$100,000 limit.

A revocable trust account is a deposit account that evidences an intention that the funds will belong to one or more named beneficiaries upon the death of the owner (grantor/settlor).

There are both informal and formal revocable trusts. Informal revocable trusts, often called "payable-on-death" (POD), "Total Trust" or "in trust for" (ITF) accounts, are created when the account owner signs an agreement — usually part of the bank's signature card — stating that the funds are payable to one or more beneficiaries upon the owner's death.

Formal revocable trusts — known as "living" or "family" trusts — are written trusts created for estate-planning purposes. The owner controls the funds in the trust during his or her lifetime. Upon the owner's death, the trust generally becomes irrevocable.

All deposits that an owner has in both informal and formal revocable trusts are added together with those HSAs satisfying the revocable trust rules for insurance purposes, and the insurance limit is applied to the combined total.

If an HSA has multiple beneficiaries, the FDIC will assume the beneficiaries' interests are equal, unless otherwise stated in the trust. For example, if a father has an HSA leaving all funds equally to his three children, the HSA