HSAs

Health Savings Accounts & FDIC Insurance

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 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 The HSA has the special feature that any funds withdrawn to pay the qualified medical expenses of the HSA account owner, his or her spouse, or any dependent, will be tax free.

What has the FDIC written about HSAs?

If a depositor opens an HSA and names beneficiaries either in the HSA agreement or in the bank's records, the FDIC would insure the deposit under the Revocable Trust Account ownership category. If a depositor opens an HSA and does not name any beneficiaries, the FDIC would insure the deposit under the Single Account ownership category. The identification of a deposit as an HSA, such as John Smith's HSA, is sufficient for titling the deposit to be eligible for Single Account or Revocable Trust Account coverage depending on whether eligible beneficiaries are named.

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 $250,000 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 $250,000 limit.

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 would be insured up to $750,000, since there are three qualifying beneficiaries who would inherit the HSA deposits equally when account the owner dies.

General Discussion

What is the FDIC?

The FDIC is an independent agency of the U.S. government. It was established by Congress in 1933 to insure bank deposits and thereby maintain sound conditions in our financial system and protect the nation's money supply in case of financial institution failure.

Are all financial institutions insured by the FDIC?

No. The FDIC insures deposits in national and most state banks, including commercial, savings and mutual savings banks and most savings and loan associations. Deposits in some U.S. branches of foreign depository institutions also are insured. Insured depository institutions are required to display the official FDIC sign at each teller's window or station.

Insurance for savings in most credit unions is provided by the National Credit Union Administration.

How does the FDIC protect the depository institution's depositors against loss?

Each depository institution approved for deposit insurance must meet high standards of safety and soundness in its operating practices. Adherence to these standards is determined through regular depository institution examinations by federal or state agencies.

If, despite these precautions, an insured depository institution gets into financial difficulties and must be closed for purposes of liquidation, the FDIC is on hand promptly with cash to protect insured depositors. The FDIC usually begins payments to depositors within a few days after the date of an insured depository institution's closing.

Does the insurance protection afforded by the FDIC cover losses sustained by depositors in any fashion other than through the closing of an insured depository institution?

No.

What types of deposits or accounts are insured?

All types of deposits received in the usual course of business are insured, including savings deposits, checking deposits, deposits in NOW accounts, Christmas savings and other open-account time deposits, time certificates of deposit and uninvested funds. Certified checks, cashiers' checks, officers' checks, money orders, drafts, letters of credit and travelers' checks for which an insured depository institution is primarily liable also are insured, when issued in exchange for money or its equivalent, or for a charge against a deposit account.

FDIC deposit insurance covers the balance of each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured bank's closing.

The FDIC does not insure the money you invest in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if you bought these products from an insured bank.

The FDIC does not insure U.S. Treasury bills, bonds, or notes. These are backed by the full faith and credit of the U.S. government — the strongest guarantee you can get.

Does federal deposit insurance protect the interests of creditors or shareholders of a failed depository institution?

No. FDIC insurance protects only deposits, as described above.

Can membership of a depository institution in the FDIC be terminated?

Yes, but notice is always given to depositors before termination of insurance. Insurance protection does not stop immediately after termination, but continues for up to two years on deposits existing at the date of termination, less subsequent withdrawals, up to the $250,000 maximum. In the event the deposits of a depository institution are assumed by another insured depository institution, the demand and savings deposits which are assumed continue to be separately insured for a period of six months. Time deposits are separately insured to the earliest maturity date after the 6-month period.

Different Rights and Capacities/Basic Rules of What Is Insured

What is the basic insurance protection afforded a depositor?

The basic insured amount for a depositor is $250,000. Amounts in excess of $250,000 are not insured. In determining the amount of an account, accrued or anticipated interest or earnings is included.

The basic rule of FDIC insurance coverage is that the deposits of a depositor maintained in different "rights and capacities" (i.e. special classifications) are insured separately, and each type of deposit (i.e. right and capacity) is insured separately to $250,000. Amounts in excess of $250,000 are not insured unless held in a different right and capacity.

What are the basic types of rights and capacities that are generally insured separately to $250,000?

There are six basic types of accounts for “right and capacity” purposes. They are: (1) accounts of a single holder or individual accounts; (2) joint accounts; (3) revocable or "Totten" trust accounts; (4) general trust accounts; (5) IRAs and self-directed qualified plan accounts; and (6) non-self-directed qualified plan accounts. Thus, a person or a depositor may hold, or have an interest in, more than one separately insured account in the same insured depository institution.

What is a revocable trust account and what rules must be met?

The FDIC brochure provides the following discussion.

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 trust, often called “payable-on-death” (POD), “Totten 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 and HSAs are added together for insurance purposes, and the insurance limit is applied to the combined total.

What is a Payable-on-Death (POD) account?

POD accounts are insured up to $250,000 per owner for each beneficiary, if all of the following requirements are met:

1. The account title must include commonly accepted terms such as "payable-on-death," "in trust for," or "as trustee for" to indicate the existence of a trust relationship. These terms may be abbreviated (e.g. "POD," "ITF" or ATF").
2. The beneficiaries must be identified by name in the deposit account records of the insured bank.

What is a Living Trust Account?

Living trust accounts are insured up to $250,000 per owner for each beneficiary, if the account title at the bank must indicate that the account is held by a living trust. This rule can be met by using the terms "living trust," "family trust," or similar language in the account title.

Note that the living trust coverage is based on the interests of qualifying beneficiaries who would become entitled to receive trust assets when the trust owner dies (or if the trust is jointly owned, when the last owner dies). This means that, when determining coverage, the FDIC will ignore any trust beneficiary who would have an interest in the trust assets only after another living beneficiary dies.

If a living trust has multiple beneficiaries, the FDIC will assume the beneficiaries' interests are equal unless otherwise stated in the trust. For example, if a father has a living trust leaving all trust deposits equally to his three children, the trust's account would be insured up to $750,000, since there are three qualifying beneficiaries who would inherit the trust deposits equally when the owner dies.

What is a single account for FDIC insurance purposes?

A single account is a deposit owned by one person. This ownership category includes any deposit account that:

- Is held in one person's name alone
- Is established for one person by an agent, nominee, guardian, custodian, or conservator, including Uniform Gift to Minors Act accounts, escrow accounts, and brokered deposit accounts
- Is held in the name of a business that is a sole proprietorship (for example, a "DBA account")

- Is established for a decedent's estate
- Fails to qualify for coverage under another ownership category

All single accounts owned by the same person at the same insured bank are added together and the total is insured up to $250,000.

If some beneficiaries meet the relationship requirements and all other requirements are met, the interests of the qualifying beneficiaries would be insured under the revocable trust category. The interests of the nonqualifying beneficiaries would be added to the owners' other single accounts, if any, at the same bank and the total insured up to $250,000.

Do the special rules for "fiduciary accounts" apply to HSAs?

These special rules do not apply to HSA funds.

What types of IRAs and other retirement accounts are combined?

All of your deposits at the same insured bank that are in this broad category are added together, and the total is insured up to $250,000.

This limit applies to covered deposits to a traditional IRA, Roth IRA, SEP-IRA, a self-directed Keogh account, "457 Plan" accounts for state government employees, and employee-sponsored defined contribution plan accounts that are self-directed. It is also presumed that SIMPLE-IRAs qualify for the $250,000 limit, even though the governing FDIC regulation does not indicate how SIMPLE-IRA funds are covered. In general, self-directed means that the individual (and not an employer) chooses how and where the money is deposited.

What coverage applies up the death of the revocable trust owner?

Even though the revocable trust owner dies and the trust now becomes irrevocable, the irrevocable trusts that spring into being will continue to be insured under the revocable trust rules.

What FDIC insurance coverage applies when an account owner has revocable trust balances (including HSA balances)?

For $1.25 million or less, the maximum coverage is determined by multiplying the number of different beneficiaries by $250,000.

For more than $1.25 million and more than five named beneficiaries, the maximum coverage is the greater of $1.25 million or, as before, the aggregate of all beneficiaries: proportional interest in the trust deposits, limited to $250,000 per beneficiary.

What happens, for FDIC insurance purposes, once the HSA account owner dies?

The general rule is that the FDIC insures a deceased person's account as if they were still alive for another six months. During this grace period, the insurance coverage of the owner's accounts will not change unless the accounts are restructured by those authorized to do so. Also, the FDIC will not apply this grace period if it would result in less coverage.

What happens if no beneficiary survives the HSA account owner?

There is no grace period if a beneficiary (or all beneficiaries) predecease the HSA owner. The funds in the account would immediately be insured as the single ownership funds of the HSA account owner, since there is now no designated beneficiary. If one or more, but not all, beneficiaries pass away, the insurance coverage of the POD account would be reduced, because there are fewer beneficiaries.

How does FDIC insurance cover funds deposited for a deceased person's estate?

Funds deposited by an executor or administrator for a deceased person's estate are added to any funds maintained in the name of the deceased person at the same bank, if any, and the total is insured up to $250,000. Funds belonging to the estate of the deceased person, whether held in the name of the deceased or deposited by the executor or administrator, are insured separately from the funds owned by the executor, administrator, or beneficiaries of the estate. Decedent accounts are not insured on a per-beneficiary basis.