Health Savings Account

I. Definition

A Health Savings Account (“HSA”) is a tax-exempt trust or custodial account established with a qualified HSA trustee, such as an IDI, to pay or reimburse certain medical expenses. Interest earned on an HSA is tax-free. In addition, tax-free withdrawals may be made for qualified medical expenses. Unused funds and interest are carried over, without limit, from year to year.

II. Insurance Limit

The FDIC does not recognize HSAs as a unique deposit insurance category. HSAs are insured based on who owns the funds and whether beneficiaries are named in the IDI account records. These accounts could be insured under one of the following deposit insurance categories:

1) Revocable trust category

2) Single account category

III. Deposit Insurance Category

1. HSAs as Revocable Trust Accounts

In order to identify the applicable deposit insurance category for an HSA, the FDIC will determine whether the deposit has testamentary language identifying one or more eligible beneficiaries to receive the HSA deposit funds when the owner dies. If valid testamentary language exists with one or more beneficiaries named, then the FDIC will insure the deposit under the revocable trust account category. In general, coverage for revocable trust accounts will depend on the number of owners and the number of beneficiaries. For example, if John Smith deposited $750,000 at XYZ Bank and established an HSA where he identified his three children as beneficiaries of the HSA, then John Smith would be insured for up to $750,000. Using the formula for determining coverage for a revocable trust account with five or fewer beneficiaries, his coverage would be calculated as follows: 1 owner times 3 beneficiaries times $250,000 equals $750,000.

2. HSAs as Single Accounts

If an owner of an HSA has not designated beneficiaries, then the FDIC will insure the HSA as the single account of the owner. The insurance limit would be up to $250,000 for all single accounts, including any HSAs that a depositor has at the same IDI.

3. Aggregation with Other Revocable Trust Accounts or Single Accounts

In calculating the deposit insurance coverage for an HSA that identifies beneficiaries, the FDIC will aggregate the funds of the HSA with the owner's other revocable trust accounts. Thus, in the earlier example, if John Smith has named his three children as beneficiaries on his HSA and also has named those same children as POD beneficiaries on a savings account at the same IDI, the FDIC would combine those accounts and John's total coverage would be up to $750,000. If John deposited more than $750,000 between the two accounts combined, then he would have uninsured funds.

Similarly, if the HSA is established without any beneficiaries, then those deposits would be combined with any other single accounts that the depositor has at the same IDI and insured for up to $250,000.

IV. Titling Requirement

The FDIC does not require "POD" or "ITF" to be included in the account title for an HSA to be eligible for revocable trust account coverage. If the HSA deposit has testamentary language naming beneficiaries, then the FDIC will accept any of the following terms: "*Health Savings Account Trust,*" "*Health Savings Account*" (without the word "trust") or "*HSA.*" In regard to the requirement that the beneficiaries of an informal revocable trust account must be named in the IDI's account records, the listing of the beneficiaries in the IDI's HSA application form or elsewhere in the IDI's records would be acceptable.