

# A Commonsense Solution for Grieving Families

## Funeral Coverage Act of 2025 (H.R. 2436)

*For many families, funerals are an unexpected expense. This was particularly evident during the COVID-19 pandemic when so many families struggled to pay for a loved one's final expenses.*

*Americans use Health Savings Accounts (HSA) to cover medical care. However, when they die, the more immediate need is to pay for the cost of a funeral. NFDA encourages Congress to pass legislation that will designate funeral expenses as a qualified expense that beneficiaries of a Health Savings Account could use to pay for the funeral of a loved one.*



### What is a Health Savings Account?

Health Savings Accounts (HSAs) were created in 2003 so that individuals covered by high-deductible health plans could receive tax-preferred treatment of money saved for medical expenses.

Individuals can make tax-free contributions to an HSA either through an employer or on their own. The current maximum amount that can be contributed to an HSA on an annual basis is \$4,300 in 2025 for an individual and \$8,550 for a family.



### What are the advantages of an HSA?

Contributions to the HSA are made on a tax-free basis, and the growth in the HSA is also tax-free. Distributions paid out from the HSA for qualified medical expenses are made on a tax-free basis. The list of qualified medical expenses is quite broad and was further expanded and increased by the CARES Act. There is no requirement to spend the funds in the HSA; it continues to accumulate from year to year.

If a person who is under the age of 65 uses funds from an HSA for nonqualified expenses, the distribution is taxed as ordinary income, and the IRS imposes a 20% penalty. However, if the person is 65 years or older and uses funds from an HSA for nonqualified expenses, they are only taxed at ordinary income levels; they do not pay a penalty for making that expenditure.



### What happens to an HSA at death?

Like an IRA account, when a person sets up an HSA, they name a beneficiary. If the beneficiary is a surviving spouse, the unused portion of the decedent's HSA passes directly to the spouse and becomes his or her HSA; there is no tax liability.

If the beneficiary is not the surviving spouse, the proceeds that pass to the beneficiary are taxed to the beneficiary as ordinary income. However, if the decedent died owing medical expenses, the proceeds in the HSA may be used to pay those medical expenses on a tax-free basis for up to one year after the death.

If no beneficiary is named, the proceeds of the HSA go to the decedent's estate, and they are taxed as ordinary income on the decedent's final personal income tax return.



### How would designating funeral expenses as a qualified expense be beneficial?

If the law allowed funeral expenses to be deemed a qualified expense from an HSA, then the beneficiary of an HSA could use proceeds from the decedent's HSA to pay for the funeral on a tax-free basis.

When an HSA account holder dies, the beneficiary may still pay the medical expenses of the decedent using tax-free money for one year after death.

**Sponsor:** Rep. Kevin Hern (R-OK)

**Committee Jurisdiction:** House Ways and Means

### For More Information:

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