



# Medicare and Your HSA: Frequently Asked Questions

As you approach age 65, it is important to understand how your eligibility for Medicare may impact your Health Savings Account (HSA). Due to IRS rules, once you enroll in Medicare you are no longer allowed to contribute to an HSA. The following information is designed to help you determine when you should cease contributing to your HSA and how you should manage and use the account going forward.

## **Am I eligible for a Health Savings Account (HSA)?**

To be eligible for an HSA, you must be enrolled in an HSA-qualified health plan and you cannot be covered by another health plan (including Medicare or Tricare) or be claimed as a dependent on another person's tax return.

## **What must I consider about my HSA as I near Medicare eligibility?**

There are two key points you must consider to avoid any pitfalls with your HSA at age 65.

1. While you can continue to spend from your HSA, you cannot set up or contribute to an HSA in any month that you are enrolled in Medicare Part A and/or B.
2. You should stop contributing to your HSA six months before you apply for Social Security retirement benefits to avoid potential tax penalties.\*

\* When you sign up for Social Security retirement benefits, and if you're already six months beyond your full retirement age, Social Security will give you six months of "back pay" in retirement benefits. This means that your enrollment in Medicare Part A will also be backdated by six months. Under IRS rules, that leaves you liable to pay six months' of tax penalties on your HSA.

## **Can I enroll in an HSA if I am enrolled in Medicare?**

**No.** Once you enroll in Medicare Part A and/or B, you can no longer setup or contribute pre-tax dollars to an existing HSA. This is because to contribute pre-tax dollars to an HSA you cannot have any health insurance other than a High Deductible Health Plan (HDHP).

## **Can I spend from my HSA if I'm enrolled in Medicare?**

**Yes.** Even if enrolled in Medicare, you may keep an HSA if it was in existence prior to Medicare enrollment. You can spend from your HSA to help pay for medical expenses, such as deductibles, premiums, copayments, and coinsurances. If you use the account for qualified medical expenses, it will continue to be tax-free. Qualified medical expenses are defined by the IRS and include Medicare premiums and copays, providing a valuable way for Medicare beneficiaries to make use of their unused HSA funds.

### **What do I need to know about my HSA and being enrolled in Medicare Part A?**

- If you're entitled to Medicare because you signed up for Part A at age 65 or later (perhaps not realizing that it can affect the use of your HSA) *but have not yet applied for Social Security retirement benefits*, you can withdraw your application for Part A. (To do so, contact the Social Security Administration at 800.772.1213.) There are no penalties or repercussions and you are free to reapply for Part A at any future date.
- *If you have applied for or are receiving Social Security benefits*, which automatically entitle you to Part A, you cannot continue to contribute to your HSA. The only way you could opt out of Part A is to pay back to the government all the money you've received in Social Security payments, plus everything Medicare has spent on your medical claims. You must repay these amounts before your application to drop out of Part A can be processed. If you take this action, you're no longer entitled to Social Security or Medicare, but you can reapply for both at any time in the future (for example, if you end or lose your HSA coverage).

### **I will be eligible for Medicare this year but do not plan to enroll until I retire. I will remain on my employer's health insurance plan until that time. Can I keep contributing to my HSA?**

Yes. If you are eligible for Medicare but do not actually enroll, you can continue to contribute to your HSA. Once you enroll in any part of Medicare, you will no longer be eligible to contribute to your HSA. Even enrolling in Part A alone will disqualify you from depositing to your HSA.

### **What if I am covered under my spouse's HSA at work?**

The IRS rule affects only employees age 65 or older who have HSAs through their employment, because they are the ones who contribute to HSAs from their before-tax earnings at work. The rule does not affect covered spouses over age 65, who can continue to use funds from the working spouse's HSA for eligible medical purposes.

### **What if I received Medicare Part A under age 65 through disability?**

In this situation, you're entitled to Medicare as soon as you've received your 25th disability check from Social Security. In other words, you automatically go into the Medicare system and are no longer eligible to contribute to your HSA. If you're able to return to work, your disability payments will eventually stop, but your Medicare entitlement continues for up to 93 months from the time you first applied for disability.

### **What are the consequences of contributing funds to my HSA while enrolled in Medicare?**

Medicare beneficiaries who continue to contribute funds to a HSA may face IRS penalties including payment of back taxes on their tax-free contributions and account interest, excise taxes and additional income taxes.

### **What if I need more information?**

If you have any questions about this process, we recommend you consult a tax professional.