



HSA GPS Fact Sheet Series

HSAs and Medicare

Many individuals are confused at the intersection of Health Savings Accounts (HSAs) and Medicare. Two different federal agencies have primary responsibility for these programs, the Dept. of Health and Human Services for Medicare and the Dept. of the Treasury for HSAs. Each agency issues rules related to its products without consideration of the interaction with the other product, leaving Americans confused. This paper is designed to help you navigate this confusion so that you remain in compliance with HSA rules.

Medicare and HSA Eligibility

1. Do I lose my HSA eligibility at age 65?

No. You can open and contribute to an HSA at age 65 or later as long as you meet HSA eligibility requirements, which are:

- You're covered on an HSA-qualified medical plan.
- You're not someone's tax dependent.
- You don't have any conflicting coverage (including enrollment in Medicare).

Turning age 65 does not, in and of itself, preclude you from remaining HSA-eligible.

2. Does enrollment in Medicare impact my HSA eligibility?

Yes. Medicare doesn't offer an HSA-qualified option. You can't make contributions to your HSA for any months after you enroll in any Part of Medicare, even if you're also covered on an HSA-qualified plan.

3. Aren't I automatically enrolled in Medicare Part A at age 65?

No. You're enrolled in Part A (inpatient services) automatically only if you are age 65 or older and receiving Social Security or Railroad Retirement Board (RRB) benefits. You're enrolled in

Parts A and B (outpatient services like doctor visits, lab work and imaging) automatically if you're collecting Social Security disability benefits or are diagnosed with amyotrophic lateral sclerosis (ALS, or Lou Gehrig's Disease). Otherwise, you must sign up to receive coverage through Medicare.

For more information on Medicare enrollment, please refer to pages 23 and 24 of *Medicare & You 2017* (available online) or call the Social Security Administration customer service center at 1-800-772-1213.

4. If my spouse and I are enrolled on my employer's HSA-qualified plan and I enroll in Medicare, can he open an HSA?

Yes, if your spouse is otherwise HSA-eligible. Individuals don't have to be the medical plan subscriber to be HSA-eligible. You or your spouse can then make tax-deductible contributions into his HSA, up to the family maximum if you remain covered on a family contract (even if only your spouse is HSA-eligible). For some couples, this provision in the law allows them to continue to contribute to an HSA (and build tax-free balances for distribution in retirement) for several years after the older spouse enrolls in Medicare.

5. If I'm not HSA-eligible, can I enroll in my employer's HSA-qualified plan?

Yes. HSA eligibility refers to your ability to open and contribute to an HSA, *not* whether or not you can enroll in a medical plan. As long as you meet your employer's and the medical insurer's eligibility requirements, you can enroll in the medical plan. If you're not HSA-eligible, though, you can't open and contribute to an HSA. Your employer may offer a Health FSA or Health Reimbursement Arrangement (HRA) through which you can reimburse eligible expenses tax-free.

Medicare and HSA Contributions

6. Can I continue to contribute to my HSA once I'm enrolled in Medicare?

No. You lose HSA eligibility once you enroll in Medicare, so you can't make additional contributions. You can contribute for months that you were eligible before you enrolled in Medicare. For example, if your 65th birthday was May 6 and you enrolled in Medicare immediately, your effective date of Medicare coverage would be May 1. You can make contributions for the months of January, February, March and April at any point up to the date that you file your personal income tax returns for that year, even though you may not be HSA-eligible at the time that you make your retroactive contribution for those months.

7. Can I contribute to my spouse's HSA if I'm enrolled in Medicare and no longer HSA-eligible?

Yes, if your spouse is HSA-eligible and has an HSA. At that point, you're no longer HSA-eligible, but your enrollment in Medicare doesn't impact your spouse's eligibility to open and contribute to his own HSA, since only you can access benefits through your Medicare coverage.

Anyone can contribute to anyone else's HSA. If your spouse is enrolled in an HSA-qualified medical plan (even if you're the plan subscriber) and he meets all eligibility criteria, he can open his own HSA. Both you and he can contribute to the HSA.

You can contribute personal funds, either through post-tax payroll (you can set up a payroll deduction to send money directly to your spouse's HSA) or with personal funds. Your spouse then deducts these contributions on his (or if you're filing jointly, your joint) personal income tax return.

Medicare and HSA Distributions

8. If I'm no longer HSA eligible, can I make tax-free distributions for eligible expenses?

Yes. HSA eligibility relates to your ability to make *contributions*. Once you open an HSA, you can make tax-free *distributions* for eligible expenses for the rest of your life, as long as you still have a balance in your account.

9. Which expenses can I reimburse from my HSA once I'm enrolled in Medicare?

You can still reimburse tax-free all eligible out-of-pocket expenses not reimbursed by other insurance or other sources, including medical plan deductibles, copay and coinsurance; dental and vision expenses; insulin and diabetic supplies; over-the-counter equipment and supplies; and over-the-counter drugs and medicine with a prescription.

In addition, you can reimburse certain insurance premiums, including premiums for Medicare Parts B and D, Medicare Part C (Medicare Advantage - plans offered by private insurers that replace Medicare coverage) and some Medicare supplement plans.

10. Whose eligible expenses can I reimburse tax-free from my HSA?

You can reimburse your own, your spouse's and any tax dependents' (such as an adult disabled child) expenses tax-free from your HSA. These other family members don't need to be HSA-eligible themselves or be covered on your medical plan for you to make tax-free distributions from your HSA to reimburse their eligible expenses tax-free.

Note: You can't reimburse your own or anyone else's Medicare or Medicare supplement premiums tax-free until you, the account owner, turn age 65. If you have an older spouse and want to reimburse his Medicare premiums tax-free, he must open an HSA before he enrolls in Medicare and contribute at least the \$1,000 annual catch-up to cover his Medicare premiums until you turn age 65 and can reimburse his premiums tax-free from your HSA. In addition, when both of you are HSA-eligible and covered on a family HSA-qualified medical plan, you can split the \$6,750 family maximum contribution in 2017 (projected to rise to \$6,850 in 2018) between your two HSAs as you wish.

11. My spouse and I both have an HSA. Do we have to limit distributions from each HSA to our own expenses?

No. You can reimburse each other's expenses from your respective HSAs as long as you remain married. You can't combine accounts, but you may choose to reimburse both your and your spouse's expenses from one HSA to exhaust the balance in that account. Then, you have to manage (and perhaps pay monthly administration fees) on only one account without losing the ability to reimburse an expense that either of you incurs (as long as you remain married).

12. Can I make tax-free distributions from my HSA for non-eligible expenses when I turn age 65?

No. Distributions for non-eligible expenses are always included in your taxable income, putting these withdrawals on par in terms of taxes with distributions from a traditional 401(k) or traditional IRA.

Once you turn 65 or meet Social Security's definition of disabled, you can make distributions for items that aren't HSA-qualified without incurring the 20% additional tax (penalty) otherwise assessed to non-eligible expenses.

13. If I pass away first, can my HSA continue to reimburse my spouse's eligible expenses tax-free?

You name a beneficiary when you enroll in your HSA, and you can change the designation at any time. If you name your spouse as beneficiary (the most common situation), upon your death your HSA passes to your spouse with balances and tax advantages intact. Your spouse

can then reimburse his own eligible expenses tax-free. In addition, if your spouse remarries, he can reimburse his new spouse's eligible expenses tax-free. If you name any other person or entity as the beneficiary, the HSA is liquidated and the assets pass to that person or entity, who may incur a tax liability. That beneficiary doesn't enjoy the tax benefits and isn't constrained by the rules of an HSA.

Delaying Enrollment in Medicare When First Eligible to Enroll

14. Do I face a penalty if I defer Medicare enrollment when I'm first eligible (65th birthday for most individuals)?

Possibly. You won't face a penalty for delaying enrollment in Part A if you paid payroll taxes long enough (40 quarters, or 10 years) to receive part A premium-free. If you delay enrollment in Parts B and D, you won't face a penalty if you maintain "creditable coverage" - coverage deemed at least as rich as Medicare. Insurers test their plans annually and send a letter to individuals enrolled in the plan (and send reports to Medicare officials) telling them whether or not your coverage is creditable.

If your coverage isn't creditable, you face future penalties if you eventually enroll in Medicare. The penalties come in the form of increased monthly premiums when you enroll without continuous creditable coverage from the time that you were first Medicare-eligible until you actually enroll:

Part B: Penalty is a 10% per year (0.833% per month) additional Part B premium for each month that you don't maintain creditable coverage between the date that you first became eligible to enroll and when you finally enroll.

Part D: Penalty is a 1% per month (12 per year) of the national base beneficiary premium (\$35.63 in 2017) additional Part D premium for each month that you don't maintain creditable coverage between the date that you first became eligible to enroll and when you finally enroll.

About 30% of Medicare recipients are enrolled in private (Part C Medicare Advantage) plans rather than traditional Medicare. Seniors who enroll in a Medicare Advantage plan don't have to enroll in Part B or Part D. In that case, they don't face penalties for being enrolled in non-creditable coverage after age 65, since they don't pay the premiums to which the penalties are attached.

15. Given the penalty, should I just enroll in Parts B and D when I'm first eligible and stop contributing to my HSA?

That's a personal decision that you should discuss with your financial advisor. While your initial reaction might be to avoid penalties at all costs, note that (1) the penalties aren't a punishment for doing something illegal or immoral and (2) you may be better off financially by remaining in your HSA program, building HSA balances to cover future expenses, enjoying tax savings and later facing penalties.

Key considerations:

- What's the difference in current *cost* among (1) remaining covered on my employer's plan without enrolling in Medicare, (2) enrolling in Medicare only or (3) enrolling in both programs?
- What's the difference in *benefits* covered and financial responsibility between enrolling in either program or both programs?
- What *tax advantages* do I give up if I'm no longer HSA-eligible? Remember, you won't be able to reduce your taxable income through HSA contributions if you enroll in Medicare.
- What will be the financial consequences of my *penalties*? Remember, since the penalties represent additional premiums, they're eligible for tax-free reimbursement from your HSA.
- Will I ever enroll in Parts B and D and face those penalties, or will I choose coverage (such as a Medicare Advantage plan) that doesn't require enrolling in coverage and paying premiums subject to penalties?

This information is accurate as of April 1, 2017. Please note that this discussion is for informational purposes only and is based on current regulations. It doesn't represent, and shouldn't be construed as a substitute for professional advice. Please consult your personal legal, financial or tax counsel to discuss your personal situation and refer to [IRS Publication 969](#).

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