# Your Health Savings Account and Medicare

SOUTHERN LAND COMPANY

**Health Savings Account (HSA) rules are clear that individuals entitled to Medicare are not eligible to make HSA contributions. The general rule is that individuals cannot make HSA contributions for any month in which they are both eligible for and enrolled in Medicare (i.e., actually "entitled" to Medicare benefits). For those months, their monthly HSA contribution limit drops to zero.**

Medicare entitlement based on age may occur automatically if an individual begins receiving Social Security benefits (i.e., a separate application is not required). In this case, the individual loses eligibility as of the first day of the month they turn 65 and enroll in Medicare.

*Example:* Sally turns 65 on July 21 and enrolls in Medicare. She is no longer eligible to contribute to her HSA as of July 1. Her maximum contribution for that year would be 6/12 (she was eligible the first 6 months of the year) times the applicable federal limit (including the catch-up amount).

### What can you do with the funds in your account when you become eligible for Medicare?

While you can't put any more money into your HSA after you enroll in Medicare, you can continue to withdraw tax-free money to pay for medical expenses. You can then use the money in your HSA to pay your out-of-pocket expenses under Medicare (deductibles and coinsurance, plus copays or coinsurance for medications). You can also use it to pay for qualified medical expenses that Medicare doesn't cover at all, like dental care, hearing aids, or long-term care.

### Individuals can also choose to treat their HSA funds like a retirement account.

Once you're 65, your HSA is treated like a traditional IRA if you withdraw money for non-medical expenses. A traditional IRA is a retirement account in which the contributions and gains are tax-free, but withdrawals are subject to income tax. And that's exactly how it works with an HSA if you're 65+ and use the money for non-medical expenses.

**Please Note:** Medicare entitlement may be delayed by delaying the receipt of Social Security benefits (Medicare entitlement based on age or disability generally cannot be waived by individuals who are receiving Social Security benefits). Some individuals must file an application in order to be entitled to Medicare (such as working individuals who are eligible for Social Security benefits but have not applied for them). In that case Medicare entitlement may be delayed if the receipt of Social Security benefits is delayed.

- This creates an especially tricky aspect of Medicare's interaction with HSA eligibility which comes into play if an employee delays applying for Social Security, continues working past age 65 (or has a spouse that is still working), and is covered by an employer -provided group health plan based on that employment. In that situation, the employee may apply for age-based Medicare at any time until the employment or employment-based coverage ends (whichever happens first).
- The employee then has an eight-month special enrollment period to sign up for Medicare Part A. When they do sign up for premium-free Medicare coverage (Part A), their coverage will be retroactive—it will begin six months prior to the month in which they applied for benefits, but no earlier than their first month of regular Medicare eligibility. Thus, the employee may receive up to six months of retroactive Medicare coverage for the period prior to the month in which application for benefits is eventually made.
- That period of retroactive coverage will be a period of Medicare entitlement that precludes HSA contributions for those months. So, for example, an employee who turned 68 in July and signed up for Medicare at that time would not be eligible to make any HSA contributions for the preceding six months, effectively precluding any HSA contributions for the calendar year. If contributions were already made for that period, they would need to be timely distributed to avoid the excise tax on excess contributions. If the employee instead applied in November and Medicare Part A coverage is retroactive to May 1 of that year, contributions would be limited to 4/12 of the annual limit (assuming the individual had HDHP coverage and no other disqualifying coverage for the period from January through April).

**To avoid a tax penalty, you and your employer should stop contributing to your HSA at least 6 months before you apply for Medicare.** See page 27 here Enrolling in Medicare Part A & Part B.