

Health Savings Accounts For Those Approaching Age 65

Now more than ever, there is a need to understand how Medicare interacts with employer sponsored health insurance. In 2016, there were an estimated 9 million Americans ages 65 and older working, a significant increase from 4 million in 2000 (Pew Research Center Analysis of U.S. Bureau of Labor Statistics).

Increasingly, questions are raised about the prospect of contributing to **H**ea**l**th **S**avi**ng**s **A**ccounts (HSA) when turning age 65 and becoming eligible for Medicare. It is crucial to make informed decisions when it comes contributing to HSAs upon turning age 65. There can be substantial financial liabilities with missteps. To avoid penalties or other related problems, you are advised to consult with a certified financial planner or certified public accountant.

Enrolling in Medicare

When you turn 65 and you enroll in any part of Medicare (Part A or Part B), you can no longer contribute to an HSA. Furthermore, you can no longer receive employer contributions to your HSA. To be extra careful, it is recommended by the **C**enters of **M**edicare and Medicaid **S**ervices (CMS) to stop contributing to an HSA six months prior to your enrollment in Medicare. A tax adviser that is familiar with your personal situation can advise you on the timing for discontinuing contributions to the account.

Continuing HSA Contributions

While it does require some attention, you may learn that you are able to continue to contribute to your HSA upon reaching age 65. To continue to contribute, the following criteria need to be met and should be documented in a letter to the Social Security Administration:

1. You are actively working
2. You have a High Deductible Health Plan through your employer and are intending to continue to contribute to the Healthcare Savings Account
3. You are delaying enrollment in Medicare Parts A, B, and D
4. You are not receiving Social Security Retirement Benefits



Avoid Late Enrollment Penalties: If you decide to delay Medicare enrollment, make certain that enrollment in Medicare Parts A, B and D coincides with your retiree date.

Using Your Existing HSA Funds with Medicare

Although you can no longer contribute funds to your HSA upon turning 65 and enrolling in any part of Medicare, you can still use the existing funds in the account, as described below.

Using your HSA funds while enrolled in Medicare.		
Use	Taxes & Penalties	
Non-Qualified Medical Expenses	These will be taxed as income, but will be not subject to the 20% penalty.	
Health Insurance Premiums	HSA funds <u>can</u> be used tax-free & penalty free for: <ul style="list-style-type: none"> • Medicare Part A • Medicare Part B • Medicare Part D • Medicare Advantage Plans 	HSA funds <u>cannot</u> be used tax-free (but are not subject to penalties) for: <ul style="list-style-type: none"> • Employer-Sponsored Plans • Medigap or Supplemental Plans
Patient Cost Share for Qualified Medical Expenses	HSA funds can be used tax-free & penalty-free toward your cost share, such as: <ul style="list-style-type: none"> • Deductibles • Copays • Coinsurance 	

Considerations for Continuing HSA Contributions

Do you have enough in your HSA nest egg?

Evaluate if your current HSA funds will meet your expected out of pocket costs for healthcare during retirement. If retirement is a few years away and you would like to have more funds put aside for healthcare expenses, you can consider continuing contributing to your HSA.



HSA Make-up Allowance: HSA account holders that are age 55 or older can contribute \$1000 above the regular annual contribution limit.

Is retirement in your near future?

Remember that CMS recommends stopping your contribution to the HSA six months prior to your retirement. If retirement is on the immediate horizon, it may not make sense to delay Medicare enrollment with the sole purpose of being able to contribute to an HSA.

How important is it to you to begin or continue to collect Social Security Retirement Benefits?

If you are currently looking to supplement your income with the Social Security Retirement Benefits, remember that you cannot do so and also contribute to an HSA after age 65.

Resources

The following are some additional resources for you to research Medicare and HSAs:

Medicare

<https://www.medicare.gov>

800-633-4227

Centers for Medicare & Medicaid Services (CMS)

Fact Sheet: Deciding Whether to Enroll in Medicare Part A and Part B when you Turn 65

<https://www.cms.gov/Outreach-and-Education/Find-Your-Provider-Type/Employers-and-Unions/FS3-Enroll-in-Part-A-and-B.pdf>

The Social Security Administration

<https://www.ssa.gov>

800-772-1213

IRS Publication: *Health Savings Accounts and Other Tax-Favored Health Plans*

<https://www.irs.gov/pub/irs-pdf/p969.pdf>

We hope this information has been helpful to you. For more information please contact Member Care Services.

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