HSAs AND MEDICARE

To help you navigate the complicated world of health savings accounts (HSAs) and Medicare, we have created this useful document to assist you with questions that you may have related to Medicare eligibility, contributions and distributions, and what to do if you continue to work after turning 65.

IRS rules related to HSA and Medicare

If you have an HSA and you will soon be eligible for Medicare, it is important to understand how enrolling in Medicare could affect your HSA. The IRS states that if you enroll in any Medicare plan, you can no longer contribute to an HSA. This includes any Medicare and Medicare supplemental plans, since none of the plans meet the HSA-qualified HDHP criteria.

However, enrollment in Medicare does not affect your ability to request distributions—you can continue to spend your HSA dollars on qualified medical expenses.

	Contribution to HSA	Distribution from HSA
Enrolled in Medicare	No	Yes
Not enrolled in Medicare, covered by qualified HDHP	Yes	Yes

HSA eligibility and Medicare

You are eligible for an HSA as long as you meet the following criteria:

- Enrolled in a qualified HDHP Medical Plan
- Not enrolled in Medicare Part A, Part B, or Part D
- Not a tax dependent
- Not have coverage under Tricare

This means that even after you turn 65, you can still contribute to an HSA as long as you meet the above criteria.

HSA contributions and Medicare

Medicare is effective the first day of the month in which you turn 65; so, if you turn 65 on April 19, you are no longer eligible to contribute to the HSA as of April 1. You are only able to contribute to your HSA for the months that you are not enrolled. In this example, you would only be able to contribute to your HSA for the months of January, February and March. You can make your contributions for the months of January, February and March 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.

If you decide to continue to work past age 65 and enroll in an HDHP with an HSA, make sure that you stop contributing to your HSA six months prior to your retirement. See the "Working beyond age 65 with an HDHP/HSA plan" section below for more information.

HSA distributions and Medicare

Your enrollment in Medicare does not affect your ability to receive distributions from your HSA. You can continue to make distribution requests for yourself, your spouse and any of your other eligible tax dependents, even if they aren't covered on your medical plan. You may withdraw money from your HSA after you enroll in Medicare 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.

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HSA AND MEDICARE (CONT.)

In addition, once you turn 65, you can request distributions for your insurance premium expenses including Medicare premiums for parts B, C and D and some Medicare supplement plans.

Finally, you can receive distributions from your HSA for noneligible expenses without incurring any tax penalties once you turn age 65. These non-eligible distributions will be subject to your annual income tax rate, but are exempt from the 20% nonqualified distribution penalty.

Working beyond age 65 with an HDHP/HSA plan

If you choose to delay Medicare enrollment because you are still working and want to continue contributing to an HSA, you also must wait to collect Social Security retirement benefits. When you elect Social Security benefits, you are automatically enrolled into Medicare Part A. You cannot decline Part A while collecting Social Security. Based on your individual circumstances, you could delay Social Security benefits and decline Part A if you wish to continue contributing funds to an HSA by continuing HDHP coverage through your employer.

As was mentioned previously, you will want to make sure you stop contributing to your HSA plan six months prior to your retirement. This is due to the fact that you receive up to six months of retroactive Medicare coverage, not going back farther than your initial month of eligibility. If you do not stop HSA contributions at least six months before Medicare enrollment, you may incur a tax penalty.

Medicare offers a special enrollment policy that allows you to enroll in Medicare for a period of eight months after your employer coverage ends. This will allow you to avoid any late enrollment penalties.

For Medicare parts B and D, you will want to make sure that you maintain creditable coverage in order to avoid any penalties for late enrollment in those plans as well.

We are here to help

Navigating the world of HSA contributions and Medicare can be challenging and confusing.
We encourage you to seek guidance from a tax professional regarding your specific circumstances.

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To learn more about how an Associated Bank HSA can simplify your business, contact us at AssociatedBank.com/HSA.

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