

Medicare and Health Savings Accounts (HSAs)

What is an HSA?

Health Savings Accounts (HSAs) are accounts for individuals with high-deductible health plans (HDHPs). Funds contributed to an HSA are not taxed when put into the HSA or when taken out, as long as they are used to pay for qualified medical expenses. Your employer may oversee your HSA, or you may have an individual HSA that is overseen by a bank, credit union, or insurance company.

If you have an HSA and will soon be eligible for Medicare, it is important to understand how enrolling in Medicare will affect your HSA.

How does an HSA work?

In order to qualify to put money into an HSA, you must be enrolled in a high-deductible health plan. HDHPs have large deductibles that members must meet before receiving coverage. This means HDHP members pay in full for most health care services until they reach their deductible for the year. Afterwards, the HDHP pays a portion of the cost and the member pays a portion of the cost, such as a copayment.



What is Medicare?

Medicare is a federal government health insurance program for U.S. citizens and many permanent legal residents age 65 and older. It also covers some younger people with disabilities or End-Stage Renal Disease. Once you join, it provides coverage for the rest of your life.

Medicare enrollees can choose between two options – Original Medicare or Medicare Advantage. Original Medicare has three forms of coverage:

Part A:

This covers inpatient hospital stays and also limited amounts of inpatient rehabilitation services offered at skilled nursing facilities.

Part B:

This covers doctors' visits and other outpatient care, plus ambulance services, some medical equipment and preventive health care aimed at keeping you from getting sick.

Part D:

This helps cover the cost of prescription drugs, both generic and brand-name.

Medicare Advantage is also known as **Part C**. This is an alternative to original Medicare parts A and B that allows you to choose to receive all of your Medicare health care benefits through a plan from a private insurer.

How does an HSA affect my Medicare enrollment decisions?



If you enroll in Medicare Part A and/or B, you can no longer contribute pre-tax dollars to your HSA. This is because to contribute pre-tax dollars to an HSA you cannot have any health insurance other than an HDHP. The month your Medicare begins, your account overseer should change your contribution to your HSA to zero dollars per month. However, you may continue to 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, its funds will continue to be tax-free.

Should I delay Medicare enrollment if I have an HSA?

Whether you should delay enrollment in Medicare so you can continue contributing to your HSA depends on your circumstances.

- **If you work for an employer with fewer than 20 employees**, you may need Medicare in order to have primary insurance, even though you will lose the tax advantages of your HSA. This is because health coverage from employers with fewer than 20 employees pays secondary to Medicare. If you work at this kind of employer and fail to enroll in Medicare, you may have little or no health coverage because your health plan does not have to pay until after Medicare pays.
- **If you work for an employer with 20 or more employees**, your job-based insurance pays primary to Medicare. If you have primary insurance from work, you may choose to delay Medicare enrollment if you work at this kind of employer and continue putting funds into your HSA.

Note: In either case, you have access to the Part B Special Enrollment Period (SEP) when you lose coverage or retire.

If I delay Medicare enrollment, how should I time my enrollment in the future?

Start thinking about Medicare enrollment at least six months in advance of when you want your Medicare coverage to begin. You need to stop contributing to your HSA at least six months before you do plan to enroll in Medicare. This is because when you enroll in Medicare Part A, you receive up to six months of retroactive 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.

Once you have stopped making HSA contributions six months in advance, you should then plan to enroll in Medicare one or two months before you want your Medicare coverage to start.

If you choose to delay Medicare enrollment because you are still working and want to continue contributing to your HSA, you must also wait to collect Social Security retirement benefits. This is because most individuals who are collecting Social Security benefits when they become eligible for Medicare are automatically enrolled into Medicare Part A. You cannot decline Part A while collecting Social Security benefits. The takeaway here is that you should delay Social Security benefits and decline Part A if you wish to continue contributing funds to your HSA.

If you require further counseling around HSAs, you should consult a tax professional.



Resources

For help understanding Medicare enrollment decisions:

- ☐ **AARP Medicare Resource Center**
www.aarp.org/medicare
877-634-8213

Guidance to help you navigate Medicare enrollment

- ☐ **AARP Live and On Demand Webinars**
www.aarp.org/medicareemployer
Free webinars to help you explore how the program works, how and when to enroll, your menu of choices, how much it costs and where to get help

- ☐ **Medicare.gov**
www.medicare.gov
800-633-4227

The official US government website for Medicare offering helpful information, useful tools and more

- ☐ **Medicare Rights Center**
<https://www.medicarerights.org>
800-333-4114

A national, not-for-profit consumer service organization and reliable, independent source of Medicare information

- ☐ **State Health Insurance Assistance Program (SHIP)**
www.shiphelp.org
877-839-2675

A resource for local Medicare help, providing you with trusted, unbiased, one-on-one counseling and assistance