Health Savings Accounts (HSAs) and Medicare

High deductible health plans and HSAs

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, if 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.

To qualify to put money into an HSA, you must be enrolled in a high deductible health plan. HDHPs have costly deductibles that members must meet before receiving coverage. This means HDHP members typically pay in full for health care services until they reach their deductible for the year. Afterwards, the HDHP covers all the member's costs for the remainder of the year.

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

Enrolling in Medicare when you have an HSA

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 a HDHP. The month your Medicare begins, you or your HSA account overseer should switch the amount you contribute 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, it will continue to be tax-free.

Delayed Enrollment in Medicare and HSAs

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 care 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. ***In this case – you can either discontinue contributing to your HSA (but can use the HSA to pay expenses) or if you continue to contribute understand that there will be a tax penalty on the funds that you do contribute.***

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Health care coverage from an employer with **20 or more employees** pays primary to Medicare, so you may choose to delay Medicare enrollment if you work at this kind of employer and continue putting funds into your HSA with no tax penalty.

- 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 critical point here is that you should delay Social Security benefits and decline Part A if you wish to continue contributing funds to your HSA.***

Enrolling in Medicare after having delayed Enrollment

If you have chosen to delay Medicare coverage as outlined above, when you do decide to retire and will no longer have a HDHP coverage through your employer the ***key point you need to remember is you need to make sure 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.

Please note: If you continue to work and have health care coverage through your employer (whether your employer has fewer than or more than 20 employees) you have access to the Part B Special Enrollment Period (SEP) when you lose coverage or retire.

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