

This file does not fully comply with all applicable guidelines for accessible digital documents. For the most accessible experience, visit <https://vtlawhelp.org/medicare-and-your-HSA-plan-ahead>

See the flyer on the following pages.

## Medicare & Your Health Care Savings Account: Plan Ahead!

When you enroll in any part of Medicare (Part A, B, C or D), you can no longer contribute to a Health Savings Account (HSA). **If you or your employer put money into your HSA while you are enrolled on any part of Medicare, you will pay a penalty on your taxes.** Here are some common questions and answers about this topic.

### Medicare Enrollment and Your HSA

#### What happens to my HSA when I enroll in Medicare?

Once you are on Medicare, you can no longer contribute to your Health Savings Account. Your employer can't contribute either. If contributions are made while you have Medicare coverage, you will pay a penalty.

However, you can spend the money already in the HSA. HSA money that you use for "qualified medical expenses" will be tax-free and penalty-free. Ask your HSA provider or the IRS if you have questions about what kinds of expenses are allowed. You can also check IRS Publication 969, online at [www.irs.gov](http://www.irs.gov). After you turn 65 or become disabled, you can use HSA money for living expenses without a penalty. However, you will have to pay income taxes on those withdrawals.

**Example:** Linda is turning 65 on June 20<sup>th</sup>. She signs up for Parts A and B as soon as she can, so her Medicare starts on June 1. As of June 1, Linda can't contribute to her HSA. She can use the money in her HSA for qualified medical expenses. After she turns 65, she can also use the HSA money for living expenses without a penalty.

#### What happens if I enroll in Part A, but I delay taking Part B?

Enrolling in any part of Medicare makes you ineligible for HSA contributions. Even if you only enroll in Part A, you can't make HSA contributions or you will get a penalty.

**Example:** Bob is working for a business that offers health insurance. Bob delays taking Part B, but he signs up for Part A because he is eligible for premium-free Part A. This makes him ineligible for HSA contributions.

#### I already signed up for Part A—but I want to become eligible for an HSA again. Can I dis-enroll?

Although it is possible to dis-enroll—you need to proceed with **extreme caution**:

- If you are on Part A and have started getting Social Security Benefits, you will need to **pay back** all Social Security Benefits and all claims that Medicare has made toward your care before you can dis-enroll.
- Talk to Social Security before taking any action.

**My spouse is enrolled in Medicare, but I am not eligible for Medicare. If I have insurance that allows it, can I open and contribute to an HSA?**

You are eligible to open and contribute to an HSA. Your spouse's enrollment in Medicare does not impact your eligibility for an HSA. You can use your HSA to pay for qualified medical expenses for either you or your spouse.

**I am under 65 and on Medicare due to my disability. Can I open an HSA?**

You are not eligible to open an HSA. The only way to open an HSA would be to repay all the Social Security disability you have received and also repay Medicare for all the services that you have used.

## **Avoiding a Tax Penalty**

**How can I avoid paying a penalty?**

If you or your employer make a contribution while you are ineligible to contribute to an HSA, you will owe a penalty on your taxes. Your employer's contribution to your HSA is treated the same as your contribution.

To avoid a penalty, let your employer know you are going on Medicare. Both you and your employer will need to **stop contributing to your HSA by the time you are on Medicare.**

And if you delay going on Medicare or Social Security until after age 65½, both you and your employer need to **stop contributing to your HSA six months before you go on Medicare or Social Security.** (See the next section on delaying Medicare.)

## **Delaying Your Medicare Enrollment**

**What happens if I delay enrolling in Medicare Parts A and B?**

You may be able to delay enrolling in Medicare Parts A and B. By delaying, you keep your eligibility to open and contribute to an HSA account. Before delaying enrollment, you should consider the following:

- If you sign up for Social Security Benefits, you will automatically be enrolled in Part A. If you want to keep making HSA contributions, you need to delay *both* Medicare and Social Security.
- It may not be possible to delay enrolling in Medicare and keep your employer-sponsored insurance. If you work for an **employer with fewer than 20 employees**, Medicare is your primary payer. This means you need to enroll in Medicare.

**Reminder:** If you are delaying Part A and B enrollment, remember to review your current prescription coverage.

- If you want to delay enrolling in Part A and B, you also need to find out whether your current coverage provides **creditable prescription drug coverage**. Creditable drug coverage is prescription coverage that is expected to pay, on average, at least as much as Medicare's standard prescription drug coverage. You can call your current insurer to find out if your coverage is considered creditable prescription drug coverage. If the coverage is creditable coverage, you will have a special enrollment period to sign up for a Part D plan when you enroll in Medicare later. If the coverage is not creditable coverage, you probably will not have a special enrollment period. You also may have a late enrollment penalty for Part D.

**Example:** Stacey is 64 and works for an employer with 15 employees. She has an HSA. When Stacey turns 65, Medicare will be her primary insurance. This means she will go onto Medicare—and she will no longer be eligible to contribute to her HSA.

**Example:** Danica is 64 and works for an employer with 40 employees. She currently has an HSA and wants to continue to contribute. Her current insurance includes creditable prescription drug coverage, and it has no requirement that employees enroll in Part A when they turn 65. She is not collecting Social Security benefits. When Danica turns 65, she can delay enrolling in all parts of Medicare, and continue contributing to her HSA.

### **I delayed signing up for Medicare so I could keep my HSA eligibility, but now I am ready to sign up—what do I need to do?**

You and your employer need to **STOP** making HSA contributions **six months** before you plan to sign up for Medicare Parts A and B or for Social Security. When you apply for Medicare or Social Security after age 65½, your Medicare Part A coverage goes back retroactively six months from when you sign up. This retroactive coverage makes you (and your employer) ineligible to make HSA contributions during those six months.

**Example:** Phoebe is 67 years old, and she had delayed signing up for Medicare Parts A and B and for Social Security. She stays on her employer's insurance—and continues to make contributions to her HSA. Now she is ready to enroll in Social Security.

If Phoebe signs up on April 1, 2017, her Medicare Part A coverage will start six months earlier, on October 1, 2016. This means that after September 30, 2016, Phoebe is ineligible for HSA contributions. If she or her employer made any contributions to her HSA after September 30, she will owe a tax penalty.

### Can you explain more about retroactive enrollment for Part A?

- If you sign up for Medicare Part A within six months of when you turn 65, your Part A coverage starts the month of your 65th birthday.
- If you wait more than six months after you turn 65, Part A coverage is retroactive six months. Coverage actually starts six months before you signed up. The retroactive coverage makes you ineligible for HSA contributions in those six months.

**Example:** Bob turned 65 on May 15, 2017. He delayed enrolling in Part A until June 15, 2017. His Part A coverage starts May 1, 2017.

**Example:** Jim turned 65 on May 15, 2017. He delayed enrolling in Part A until May 15, 2018. He is retroactively covered by Medicare starting November 1, 2017. If he or his employer made any contributions to his HSA after November 1, he will owe a tax penalty.

### Glossary

**Creditable prescription drug coverage:** Creditable drug coverage is prescription coverage that's expected to pay, on average, at least as much as Medicare's standard prescription drug coverage.

**Health Savings Account:** A tax-deferred savings account available only to people with high-deductible health plans. The money is saved and then used for health expenses. Often people have an HSA through their employment, but that is not necessary.

**Medicare:** A health plan for seniors and for some people with disabilities. It is offered in four parts: Medicare A, B, C and D.

**Medicare Initial Enrollment Period:** The seven-month period when you can first sign up for Medicare Part A and Part B.

*Get help with your Medicare questions by calling SHIP (the State Health Insurance Assistance Program) at the Senior HelpLine – 1-800-642-5119.*