Health Savings Accounts (HSA) and Medicare

**What is a Health Savings Account (HSA)?**
An HSA itself is not a health insurance plan but an option with a High Deductible Health Plan (HDHP). Employer Group HDHPs are increasingly popular due to their relatively lower costs to employers.

An HSA is an important tool to save money to pay the higher upfront out-of-pocket costs and offers tax benefits. Employees can reduce their taxable income by contributing pre-tax dollars from their paycheck or individuals can deduct contributions for tax purposes if the HSA is set up through a trustee.

**Who can get an HSA?**
The Internal Revenue Service defines HSA eligibility as follows:
- covered under a HDHP,
- no other health coverage, other than what is allowed under *other health coverage,*
- **not enrolled in Medicare,** and
- cannot be claimed as a dependent for tax purposes on someone else’s tax return.

**How does an HSA work with Medicare?**
People often enroll in Medicare Part A when they are first eligible because they owe no monthly premium¹ and wish to avoid a Part A late enrollment penalty.² However, those working beyond age 65 (or their spouse works beyond age 65) with an Employer-sponsored Group Health Plan may wish to delay Medicare Part A (and Part B). This is particularly true when enrolling in Part A if the Employer group HDHP with an HSA. The following should be carefully considered:

1. **Contributions to an HSA are not allowed after Part A and/or Part B enrollment.**

   MEDICARE A OR B ENROLLMENT = HSA CONTRIBUTIONS

Employees should contact their Human Resources office and request HSA contributions stop before Medicare enrollment.

*Note:* After Medicare Part A and/or B enrollment, saved HSA funds can be spent on qualified *medical expenses,* including Medicare deductibles and coinsurance. Medigap premiums are not considered qualified medical expenses.

¹Premium-free Part A requires Medicare contributions for 40 qualifying quarters (or spousal contributions). Those without enough quarters can [buy Medicare Part A](https://www.medicare.gov/mhl/index.html). The premium may be prorated based on contributions for fewer quarters. In some states, the Medicare Savings Program will pay the Part A premium for QMB eligibles.
²The *Part A late enrollment penalty* applies when there is a lack of LGHP or EGHP coverage as a primary payer based on current work status. Learn more in the Centers for Medicare & Medicaid Services [Who Pays First](https://www.cms.gov/medicare/beneficiaries-learning-center/whopaysfirst.html) booklet or [SSA HI 00805.266](https://www.ssa.gov/policy/docs/pubs/10000/hi00805266.pdf).
2. Claiming SS benefits beyond age 65 years triggers automatic Part A enrollment and a retroactive Part A coverage period that cannot be declined. The retroactive Part A period is limited to 6 months and cannot go back further than the entitlement date. An IRS penalty applies to HSA contributions made, even if unknowingly, during the Part A retroactive period. **To avoid an IRS penalty, stop contributions to the HSA between 1-7 months prior to enrolling in Medicare Part A or claiming Social Security (SS) benefits after age 65 years.**

Example 1: Margaret will retire and turn 65 in February. In January, she went to the SSA office to enroll in Medicare Parts A & B during her **Initial Enrollment Period** (IEP). She claimed her SS benefits with a start date in February. Since Margaret enrolls in Medicare Part A to begin at age 65 years, she has no retroactive Part A coverage.

Example 2: John works and has an Employer Group HDHP with an HSA. He will claim his SS benefits when he turns 68 in May and will continue working a couple more years. Since John claims his SS benefits after age 65 years, he is automatically enrolled in Part A retroactively for 6 months (maximum retroactive enrollment). He needs to contact his Human Resources office and stop his HSA contributions in October to avoid an IRS penalty during the retroactive Part A coverage period.
Example 3: Amir’s 65th birthday is in September. He planned to continue to work with an Employer Group HDHP with an HSA. He had a stroke in October and his doctor advised him to retire. He signs up for Medicare and SS benefits to begin in November. His SS benefits start in November, but his Medicare start dates are both retroactive and delayed as follows:

- **Retroactive Part A**: Since Amir claims his SS benefits after age 65 years, he is automatically enrolled in Part A retroactively effective September 1 (to his earliest entitlement date but no longer than 6 months retroactive coverage).
- **Delayed Part B**: Amir’s Part B start date is delayed because he is in the second half of his IEP. He gets a Special Enrollment Period (SEP) since his EGHP is ending but it is trumped by his IEP. To learn more about these special situations visit the CMS fact sheet [When Medicare Enrollment Periods Overlap](#). Due to the delay, Amir needs health insurance in December and January to cover the gap in the delayed Part B start date. Since he retires in November, he’s able to keep his EGHP for the month of November. He is not eligible to join a Marketplace plan because he is enrolled in premium-free Medicare Part A and should consider purchasing COBRA through his employer.

Additionally, Amir needs to contact his Human Resources office to complete retirement paperwork and stop his HSA contributions. He’ll likely owe an IRS penalty for contributions made in September, October, and possibly November if the payment has already been made. He should ask his employer to keep his EGHP in November and COBRA through January, since his Medicare Part B is delayed until February 1.

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3. **Those working at age 65 and beyond (or whose spouse is working) with an EGHP based on current employment can delay Medicare Part A (and Part B) until a Special Enrollment Period and avoid late enrollment penalties.**

While an employee with EGHP will has the ability to use an SEP to delay enrollment and avoid penalties, Medicare Coordination of Benefit rules are important as well. Medicare is the secondary payer in these instances:

A. The employer has more than 20 employees and offers an EGHP to those age 65 or older.
B. The employer has more than 100 employees and offers a Large Group Health Plan (LGHP) to those under age 65 eligible for Medicare.

If Medicare is the primary payer but the employee does not enroll in Medicare, then the employee may have to pay their costs as the primary insurance out of their own pocket. As a secondary payer, Medicare pays only if the primary insurance pays less than Medicare would have as the primary payer. As a result, Medicare may pay little, if any, on medical claims as a secondary payer.

**Example 4:** Harry retires in November to celebrate his 72nd birthday and loses his Employer Group HDHP with HSA. Because he was working he didn’t claim SSA benefits or enroll in Medicare. He contacts his Human Resources office in June to stop his HSA contributions so he won’t be subject to an IRS penalty during the 6 month automatic, retroactive Part A coverage. He uses a Special Enrollment Period (SEP) to join Parts A, B and D effective in December when his Employer Group HDHP ends. To learn more about Special Enrollment Periods (SEP), visit the tip sheets for Medicare [Part D](#) and [Parts A & B](#).

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**Resources**

Centers for Medicare & Medicaid Services Medicare General Information, Eligibility and Entitlement Manual Chapter 2 - Hospital Insurance and Supplementary Medical Insurance Section 10.2 Hospital Insurance for the Aged


Social Security Administration Social Security Act 202(j), 42 U.S.C. 202 (j)(1)(B) and Programs Operations Manual System (POMS) HI 00801.022, HI 00805.266, HI 00805.280, and HI 00805.751.

Revised March 28, 2016