

Your Health Savings Account (HSA) and Medicare eligibility

What you need to know before enrolling in Medicare if you are still working



What is a Health Savings Account (HSA)?

A Health Savings Account (HSA) is a vehicle that allows employers and employees to set aside money on a pre-tax basis. The money earns interest tax free, and qualified distributions are also tax free. Established with a high deductible health plan (HDHP), HSA dollars are used to pay towards the plan's high deductible and other qualified medical expenses.

What is the impact of having an HSA and enrolling in Medicare?

The IRS does not permit you or your employer to contribute to your HSA while enrolled in Medicare. If you do, you may face significant tax penalties. This rule applies to all parts of Medicare, however, Medicare Part A often becomes an issue because it is premium free. Members enroll in Part A without realizing the tax consequence.

If you own an HSA, you are responsible for it, not your employer. Any tax penalties incurred are yours alone!

I contribute to an HSA and will be Medicare eligible soon, what are my options if I continue to work beyond age 65?

You have three options, please review them closely to determine the best one for you. Each option will help you avoid potential costly tax penalties associated with contributing to an HSA while enrolled in Medicare.

Option 1

Delay enrollment in Medicare Part A and Part B and continue contributions to your HSA.

Opting out of Medicare while you're working allows contributions to your HSA to continue. You will be able to enroll in Part A and Part B when you terminate service with your employer, during a Special Enrollment Period.

This is an option for those who wish to continue accruing funds in their HSA while maintaining the lower premiums associated with their employer's HDHP. However, understand that you cannot delay Medicare Part A without delaying Social Security benefits, if eligible. For more information, contact Social Security at 1-800-772-1213.

Be aware that Medicare coverage is backdated retroactively for six months to ensure that people coming off employer-sponsored health coverage will not inadvertently find themselves uninsured while transitioning to Medicare. Since Medicare coverage is retroactive, the IRS also looks back six months to determine if an individual has contributed to an HSA and may owe tax penalties. The six-month look-back period does not include any months prior to your 65th birthday.

To avoid tax penalties, you would need to stop contributions to your HSA six months prior to terminating your employment.

Example of the six-month look back

Jack delayed his enrollment in Medicare until he retired at the age of 66. He stopped making contributions to his HSA three months before turning 66. Due to the six-month look-back, Jack owes tax penalties on the amount that is contributed during the first three months of the look back period (and any corresponding interest on those amounts) if these contributions are not distributed by the tax filing deadline.

Option 2

Enroll in Medicare at age 65 and stop contributions to your HSA.

With this option, you will need to pay the cost of your Medicare Part B premium, and a separate individual Medicare plan premium.

Stop contributions to your HSA by the month before your 65th birthday month. For most individuals, Medicare begins on the first of the month in which you turn 65. However, if your birthday is on the first of the month, Medicare will begin the first of the month prior.

Note: Small employers with less than 20 employees may require that you enroll in an individual Medicare plan, so this might be your only option. Larger employers cannot require you to enroll in Medicare while you are actively employed.

What should I do if I am already enrolled in Medicare and contributing to my HSA?

If you or your employer are contributing to your HSA while enrolled in Medicare or have contributed during the six-month look back period, you may have the option to reverse the contributions made prior to filing taxes. Talk to your employer and HSA administrator to find out if this is an option for you.

You may also weigh your option to pay the tax penalties. However, HSAs are highly tax advantaged plans. Your HSA administrator or tax advisor are the best resources to find out how much you will owe. You may also want to review IRS Publication 969 entitled, Health Savings Accounts and Other Tax-Favored Health Plans.

How will my HSA interact with the OPERS Health Care Program in retirement?

If eligible for the OPERS Health Care Program, you may receive an allowance from OPERS that is deposited into a Health Reimbursement Arrangement (HRA). When you retire, you can use the balance remaining in your HSA and HRA at the same time, but the IRS has specific rules as to how they work together. Simply put, you cannot use HSA and HRA funds for the same qualified medical expense. If you are considering re-employment, the OPERS HRA is not compatible with contributions to an active HSA while re-employed.

Do HSAs work similarly to Flexible Spending Accounts (FSAs)?

Individuals often confuse HSAs for Flexible Spending Arrangements (FSAs). FSAs are employer-established benefit plans that you can contribute to on a tax-free basis and receive distributions for reimbursement of qualified medical expenses incurred during the period of coverage. Generally, contributed amounts that aren't spent by the end of the plan year are forfeited. Unlike HSAs, there are no tax penalties if contributions are made to an FSA while working and enrolled in any part of Medicare.

