

# Does Medicare affect HSA eligibility?



## Medicare and HSA eligibility

If you've signed up for Medicare or become eligible, you may be wondering if that changes your ability to contribute to a health savings account (HSA). Here are some common questions and answers that will help you understand Medicare and how it fits with your HSA.

### Do I lose my HSA eligibility at age 65?

No. You can open and contribute to an HSA at age 65 or later as long as you meet HSA eligibility requirements, which are:

- You're covered on an HSA-qualified medical plan
- You're not someone's tax dependent
- You don't have any conflicting coverage (including enrollment in Medicare)

### Does enrollment in Medicare impact my HSA eligibility?

Yes. Because Medicare doesn't offer an HSA-qualifying option, you can no longer make contributions to an HSA – even if you have another health plan.

### Am I automatically enrolled in Medicare Part A at age 65?

No. You're enrolled in Part A (inpatient services) automatically only if you are age 65 or older and receiving social security or railroad retirement benefits. You're enrolled in Part A and Part B (outpatient services like doctor visits, lab work and

imaging) automatically if you're collecting social security disability benefits or are diagnosed with amyotrophic lateral sclerosis (ALS, or Lou Gehrig's disease). Otherwise, you must sign up to receive coverage through Medicare.

### If my spouse and I are enrolled in my employer's HSA-qualified plan and I enroll in Medicare, can my spouse open an HSA?

Yes, if your spouse is otherwise HSA-eligible. You don't have to be the medical plan subscriber to be HSA-eligible. You or your spouse can then make tax-deductible contributions to your HSA up to the family maximum if you remain covered on a family contract (even if only your spouse is HSA-eligible).

### If I'm not HSA-eligible, can I enroll in my employer's HSA-qualified plan?

Yes. HSA eligibility refers to your ability to open and contribute to an HSA, not whether or not you can enroll in a medical plan. As long as you meet your employer's and the medical insurer's eligibility requirements, you can enroll in an HSA-qualifying medical plan.



### Have questions?

Call the Social Security Administration customer service center at 1-800-772-1213.

## Medicare and HSA contributions

### Can I continue to contribute to my HSA once I'm enrolled in Medicare?

No. You can contribute only for the months before you enrolled.

### Can I contribute to my spouse's HSA if I'm enrolled in Medicare and no longer HSA-eligible?

Yes, if your spouse is HSA-eligible and has an HSA, you – or anyone else – can contribute to their HSA. Your spouse then deducts these contributions on their (or if you're filing jointly, your joint) personal income tax return.



## Medicare and HSA distributions

### I'm no longer HSA-eligible. Can I make income tax-free distributions for qualified medical expenses?

Yes. You can withdraw funds income tax-free for qualified medical expenses anytime you have a balance in your account. That includes all qualified medical out-of-pocket expenses not reimbursed by insurance or other sources, such as:

- Medical plan deductibles
- Copay and coinsurance
- Dental and vision expenses
- Insulin and other diabetes supplies
- Over-the-counter drugs and medicine with a prescription
- Medicare Parts A, B and D
- Medicare Part C (Medicare Advantage HMO and PPO plans – plans offered by private insurers that replace Medicare coverage)

### Whose qualified medical expenses can I reimburse income tax-free from my HSA?

You can reimburse your own, your spouse's and any tax dependents' (such as an adult disabled child's) expenses income tax-free from your HSA. These other family members don't need to be HSA-eligible themselves or covered on your medical plan for you to make income tax-free distributions from your HSA to reimburse their qualified medical expenses tax-free.\*

### My spouse and I both have an HSA. Do we have to limit distributions from each HSA to our own expenses?

No. You can reimburse each other's expenses from your respective HSAs as long as you remain married.

### Can I take income tax-free distributions from my HSA for noneligible medical expenses when I turn age 65?

No. Distributions for noneligible expenses are always included in your taxable income, just like distributions from a traditional 401(k) or traditional IRA. Once you turn 65 or meet social security's definition of disabled, you can take distributions for items that aren't HSA-qualified without incurring the 20% additional tax (penalty).

### If I pass away first, can my HSA continue to reimburse my spouse's qualified medical expenses income tax-free?

You name a beneficiary when you enroll in your HSA, and you can change the designation at any time. If you name your spouse as beneficiary (the most common situation), upon your death your HSA passes to your spouse with balances and tax advantages intact. If you name any other person or entity as the beneficiary, the HSA is liquidated and the assets pass to that person or entity, which may incur a tax liability. That beneficiary doesn't enjoy the tax benefits and isn't constrained by the rules of an HSA.

\*You can't reimburse your own or anyone else's Medicare premiums income tax-free until you, the account owner, turn age 65. If you have an older spouse and want to reimburse their Medicare premiums income tax-free, they must open an HSA before they enroll in Medicare and contribute at least the \$1,000 annual catch-up contribution. They can use this to cover their Medicare premiums until you turn age 65 and can reimburse their premiums income tax-free from your HSA. In addition, when both of you are HSA-eligible and covered on a family HSA-qualifying or compatible medical plan, you can split the family maximum contribution between your two HSAs as you wish.

# Delaying enrollment in Medicare when first eligible to enroll

## Do I face a penalty if I defer Medicare enrollment when I'm first eligible (65th birthday for most individuals)?

Possibly. Here are the potential tax consequences if you delay enrolling in Medicare around your 65th birthday when you're entitled to an Initial Enrollment Period:

- Part A (inpatient and home health care): If you (or your spouse) worked 40 employment quarters with income above the Medicare threshold, you receive Part A premium-free. You face no penalties for delaying enrollment past your Initial Enrollment Period.
- Part B (physician and outpatient services): If you don't enroll during the Initial Enrollment Period, you must maintain group coverage from your 65th birthday until you do enroll in Part B. For every 12 months past your 65th birthday that you don't maintain group coverage, you pay a 10% surcharge on your monthly Part B premium for the rest of your life. In addition, you may face a gap in coverage when you do want to enroll, since you'll have to wait until the next General Enrollment Period to enroll in benefits effective the following July 1.
- Part D (prescription drug coverage): If you don't enroll during the Initial Enrollment Period, you must maintain group or nongroup coverage that offers prescription drug benefits that are at least equal to Part D. If you don't, you're assessed a permanent surcharge of 1% of the national base beneficiary premium for every month since your 65th birthday that your coverage isn't what's called Medicare Creditable Coverage (MCC). In addition, you may face a gap in coverage when you want to enroll. You'll have to wait for the next General Enrollment Period to enroll in benefits.



## Given the penalty, should I just enroll in Parts B and D when I'm first eligible and stop contributing to my HSA?

That's a personal decision that you should discuss with your financial advisor. Here are a few things to consider:

- What's the difference in current cost among (1) remaining covered on my employer's plan without enrolling in Medicare, (2) enrolling in Medicare only or (3) enrolling in both programs?
- What's the difference in benefits covered and financial responsibility between enrolling in either program or both programs?
- What tax advantages do I give up if I'm no longer HSA-eligible?
- What will be the financial consequences of my penalties?
- Will I ever enroll in Parts B and D and face those penalties or will I choose coverage (such as a Medicare Advantage plan) that doesn't require enrolling in coverage and paying premiums subject to penalties?



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