Lawley | MEDICARE SOLUTIONS

TOP 100 NATIONAL BROKER BUSINESS INSURANCE®

HSAs & MEDICARE INSURANCE

Know the rules when you enroll in Medicare insurance to avoid steep penalties.

If you're age 60+, you probably have figured out how to use your health savings account (HSA) to help pay for qualified medical expenses—and even save something extra for unanticipated health care expenses you may soon be facing in retirement.

But watch out: There are a few important rules to follow if you want to avoid being subject to stern financial penalties when you enroll in Medicare insurance in a few short years.

Like many things in health care, it's a bit complicated. So, it's vitally important that you know when to stop contributing to your HSA along with when you can and cannot use HSA dollars to pay for medical expenses—before, during, and after you enroll in Medicare insruance at age 65.

To get started, let's recap what HSAs offer.

Paying for medical expenses with an HSA—tax-free

HSAs work with HSA-eligible health plans to allow you to pay for qualified medical expenses. HSAs offer triple tax savings:

1. You can contribute pre-tax dollars.
2. You pay no taxes on earnings.
3. You can withdraw the money tax-free now or in retirement to pay for qualified medical expenses.

You can use your HSA to pay for qualified medical expenses each year and let any leftover funds in the HSA grow for use in the future, including in retirement. You can use your HSA to pay for qualified medical expenses in retirement, such as vision and dental care, hearing aids, and nursing services. You can also use your HSA to:

HELP BRIDGE THE GAP TO MEDICARE

If you retired before age 65, you still need health care coverage before enrolling in Medicare insurance plans. You can use your HSA to pay for health care coverage purchased through an employer-sponsored plan under COBRA. You can also use your HSA to pay health insurance premiums while receiving unemployment compensation. These exceptions could be helpful if you lose your job or decide to stop working before turning 65.

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Key Takeaways

It's important to understand the implications of Medicare insurance enrollment for future HSA contributions. You could be subject to tax penalties if you make health savings account (HSA) contributions after you enroll in Medicare insurance or when your Medicare insurance coverage begins.

When you enroll in any form of Medicare insurance, neither you nor your employer should continue contributing to your HSA.

If you enroll in Medicare insurance after turning 65, your coverage can become effective up to six months earlier. You and your employer will need to end your HSA contributions up to six months before enrolling in Medicare insurance since Medicare insurance back dates your Part A coverage from the date you enroll.

Call to schedule a one-on-one or virtual meeting!

THERE IS NO OBLIGATION TO MEET WITH US!

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COVER MEDICARE INSURANCE PREMIUMS

You can use your HSA to pay certain Medicare insurance expenses, including premiums for Part A, Part B, Part C (Medicare Advantage), and Part D prescription drug coverage, but not supplemental (Medigap) policy premiums. Retirees over age 65 who have employer-sponsored health coverage can use their HSA to pay their share of those costs as well.

PAY FOR OTHER EXPENSES

Once you enroll in Medicare insurance, you can use your HSA to pay for any nonqualified medical expenses like buying a boat or new patio furniture, but you don't get to take full advantage of the tax savings; you're required to pay state and federal taxes for such expenditures. (If you're not enrolled in Medicare insurance, you will pay a 20% penalty on nonmedical withdrawals, and you'll also pay taxes for such withdrawals.)

AVOIDING THE PITFALLS

HSA eligibility rules state you can't contribute or receive contributions from your employer to your HSA when enrolled in any part of Medicare insurance. Otherwise, you could be subject to tax penalties.

IF YOU'RE CURRENTLY CONTRIBUTING TO YOUR HSA, AND YOU PLAN TO START YOUR MEDICARE INSURNACE COVERAGE THE MONTH YOU TURN 65:

• Make sure all HSA contributions end before your 65th birthday month.
• If your birthday is on the first of the month, make sure you stop your contributions by the beginning of the month before your birthday month.

IF YOU CONTINUE TO WORK AFTER AGE 65 & YOU OR YOUR EMPLOYER IS STILL CONTRIBUTING TO AN HSA:

- Stop making contributions to your HSA up to 6 months before applying for Medicare Part A only or Part A and Part B or starting your Social Security retirement benefits.
- When you receive Social Security retirement benefits, your Medicare Part A coverage is back-dated 6 months (but no earlier than the first month you're eligible you're eligible to enroll in the Medicare Program) to give you 6 months of back-dated benefits. If you contribute to your HSA during those 6 months, you may face a 6% excise tax and an income tax for those contributions.
- This "6-month lookback" starts when you enroll in Medicare insurance or begin your Social Security retirement benefits. However, you can withdraw those contributions by the end of the tax year to avoid the excise tax.

This HSA restriction leads some working past age to defer Medicare insurance and maintain their current employer-based health insurance coverage so they can keep contributing to their HSA until they retire.

TIP: Remember, after you enroll in Medicare insurance, you can use existing funds in your HSA for qualified medical expenses, including your monthly premiums for Medicare insurance Parts A, B, C, and D (but not Medigap premiums).

SUMMARY

HSAs allow for spending for short-term qualified medical expenses and saving for long-term costs in retirement. If Medicare insurance is in your near future, don't get penalized for making contributions after you're enrolled or when your Medicare insurance coverage begins.