Health Savings Accounts

For People Approaching or Over Age 65

Health Savings Accounts (HSAs) are governed by specific IRS guidelines, so it is important to be aware of some of the issues that might affect your health care coverage as well as your HSA as you approach age 65.

What is an HSA?

An HSA is like an IRA with very attractive tax advantages. There is a triple tax advantage which means:

- The money you contribute to the HSA is tax deductible;
- The money you use from your HSA for qualified medical expenses is tax free; and
- The investment earnings on your money while it is in the account are not taxed.

In order to open a Health Savings Account (HSA) you must be covered on a qualified High Deductible Health Plan (HDHP). Since the HSA is ***your*** savings account, you have a choice of how you want to use it. Many people use it to pay their deductible or day-to-day medical expenses. However, you may also want to use it as a savings vehicle for the future; it's a good way to save money for medical expenses after retirement.

Approaching Age 65

- If you are over age 55, you can take advantage of the "catch-up contribution" until you reach age 65. You can contribute up to $1,000 more to your HSA than the published contribution limit each year. For 2016, those published contribution limits are $3,350 for a self-only plan or $6,750 for a family plan, and for 2017 the limits go up to $3,400 and $6,750.
- If you are covered on the HDHP medical plan and contributing to an HSA, you will need to make some decisions at the Open Enrollment ***just prior to your 65th birthday.*** If you are continuing to work you'll need to decide whether you want to stay on this medical plan or change to another plan that includes creditable prescription drug coverage, if your plan is deemed "non-creditable", as some HDHP/HSA plans are.
- When approaching age 65 and considering social security and Medicare you should stop your HSA contribution 6 months in advance. The reason for this is that Medicare Part A can be retroactive for up to 6 months.

Age 65+

- Upon reaching age 65, anyone who is still actively at work for an employer with 20 or more employees, must choose the employer plan as their primary plan, over Medicare. They may not even want to sign up for Medicare until they retire.
  - Most people are entitled to **Medicare Part A** at no cost, so they feel they should enroll.
  - Since there is a premium for **Medicare Part B**, most working people defer Part B since they don't really need it if they are covered on the employer's plan. They can enroll later during a Special Enrollment Period (SEP) when they retire or lose the employer group coverage.
  - There is also a premium for **Medicare Part D,** the prescription drug plan, and Medicare imposes a Late Enrollment Penalty (LEP) if you do not enroll when you are first eligible - ***unless*** you are covered by a prescription drug plan that is considered "creditable", meaning at least as good as a standard Medicare Part D plan (see Late Enrollment Penalty description on the next page).
- If the medical plan is considered "non-creditable" prescription drug coverage, you would be subject to a late enrollment penalty if you do not enroll in a Medicare Part D plan when you are first eligible, or if you have a break in creditable drug coverage of more than 63 days.
- **If you enroll in *any* Medicare plan, you will no longer be able to contribute to your HSA account.** You can, however, use the funds in your HSA to pay for your Medicare premium.
- Choosing Medicare as Primary and enrolling in a Medicare Supplement while you are still actively at work would make you ineligible for coverage through your group.

What is important to you when making your choice?

Since many people are continuing to work after age 65, there are many variables to personal situations and things to consider when making decisions about coverage. For example:

- Are you interested in the tax free savings advantages of the HSA?
- Are you interested in the best coverage for prescription drugs?
- Are you looking for the lowest premium?
- Is your HDHP considered creditable coverage?
    - If not, should you choose a plan that ***is*** creditable?
    - Even if you are Medicare eligible, you can open or contribute to an HSA if you have an HSA-qualified HDHP, as long as you are not ***enrolled*** in a Medicare plan,
    - You can delay enrollment in Medicare and continue to contribute to the HSA until you retire, knowing you will not have a Part D Late Enrollment Penalty.
- If your HDHP/HSA plan is considered non-credible:
    - You can enroll in a Part D plan and forfeit your ability to contribute to the HSA.
    - You can still use the money that is already in the HSA account and receive tax-free distributions to pay for qualified medical expenses.
    - You can delay enrollment in Medicare and continue to contribute to the HSA until you retire, knowing you may have a Part D Late Enrollment Penalty.

If you are thinking about delaying enrollment in Medicare, be sure you explore what it might mean for your retirement if you delay enrollment in Part A.

At the point that you retire and/or sign up for Social Security Retirement Benefits, you will need to enroll in Medicare Part A and B (and Part D if you need it) if you are over 65.

What is the Late Enrollment Penalty for Part D?

If you don't join a Medicare prescription drug plan when you are first eligible, or if you have a break in creditable drug coverage of more than 63 consecutive days, you must wait until the next Part D enrollment opportunity to join a drug plan and you may have to pay a higher premium because of the late enrollment penalty.

The amount of the penalty is based on the number of months you were not covered by creditable drug coverage. To estimate the penalty, use the "national base beneficiary Part D premium" ($31.17 in 2013 and $32.42 in 2014) and take 1% of that amount times the number of full, uncovered months you were eligible but didn't join a Medicare drug plan or went without creditable coverage.

Example: Mrs. Jones didn't join when she was first eligible – by May 15, 2013. She just joined a Medicare drug plan during the Annual Election Period of October 15 – December 7, 2015, for an effective date of January 1, 2016. Since she went without creditable drug coverage for 43 months (June 2013 – December 2016) she is charged a monthly penalty of approximately $13.30 ($31.17 times 1% =.31 times 43 months = $13.33) in addition to the monthly premium for the plan she chooses, for as long as she continues to have Medicare Part D.

Additional Resources

IRS

The following IRS Publications and Forms about Health Savings Accounts are updated for each tax year and can be found at **www.irs.gov/pub**

- Publication 969 - Provides information about Health Savings Accounts
- Form 8889 - The tax form you file if you make contributions to an HSA
- Instructions for Form 8889

Social Security

www.socialsecurity.gov
1-800-772-1213

You can find information about things like enrolling in Medicare before reaching full retirement age and how working affects your social security benefits once you reach full retirement age.

Medicare

www.medicare.gov and www.cms.gov
1-800-MEDICARE (633-4227)

Even though Medicare Parts A & B are administered through Social Security, these websites offer lots of information to help answer questions and help you with decisions. One excellent source is the Medicare Handbook - Medicare & You – that comes from the U.S. Dept. of Health and Human Services Center for Medicare and Medicaid Services (CMS).

The information in this Workplace Benefit Solutions/HUB brochure is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. We advise you to talk to your tax advisor or financial planner to understand the IRS guidelines for HSAs.

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