Medicare and the Health Savings Account

Learning Objectives

- HSA contribution eligibility
- Medicare basics
- When Medicare enrollment occurs
- How Medicare affects an HSA
- Medical expenses in retirement
- How financial organizations can help

Contributing to an HSA

What is a Health Savings Account (HSA)?

Triple tax-advantaged account

Accumulate savings

Invest savings

Pay for medical expenses

Eligible Individuals

Covered by an HDHP

Generally not covered by another nonHDHP

Not enrolled in Medicare

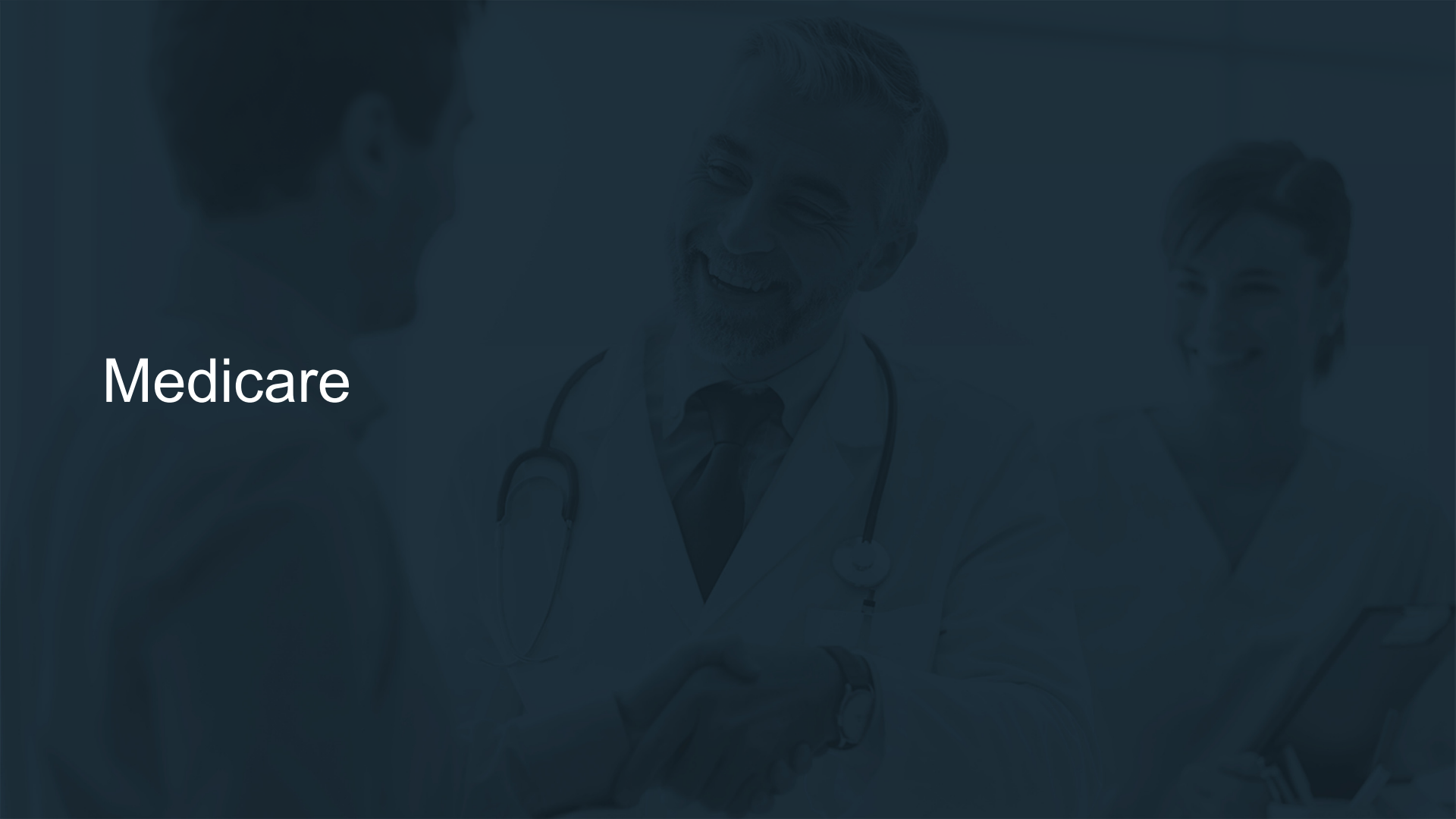
Not eligible to be claimed as a dependent

Medicare Eligibility vs. Medicare Enrollment

IRS Notice 2008-59

Q–2. May an otherwise eligible individual who is eligible for Medicare, but not enrolled in Medicare Part A or Part B, contribute to an HSA?

A–2. **Yes.** Section 223(b)(7) states that an individual ceases to be an eligible individual starting with the month he or she is entitled to benefits under Medicare. Under this provision, **mere eligibility for Medicare does not make an individual ineligible to contribute to an HSA**. Rather, the term "entitled to benefits under" Medicare means both eligibility and enrollment in Medicare.



Medicare

The 4 Parts of Medicare

Hospital Insurance

Part A

Covers hospital care, emergency care, home health care

Medical Insurance

Part B

Covers doctor visits, outpatient care, preventative services

Medicare Advantage

Part C

Covers Part A and B and D with additional coverage

Prescription Drug

Part D

Prescription drug coverage

“Original Medicare”

Includes

Hospital Insurance

Part A

Premium free

40 quarters of Medicare taxes

Medical Insurance

Part B

$135.50 per month*

*Standard premium

Optional

Medicare Supplement

Medigap

Premium varies by plan

Prescription Drug

Part D

$34.00 per month*

*Average premium (varies by plan)

Medicare Advantage AKA “Medicare Part C”

Includes

Hospital Insurance

Part A

Premium free

40 quarters of Medicare taxes

Medical Insurance

Part B

$135.50 per month*

*Standard premium

Medicare Advantage

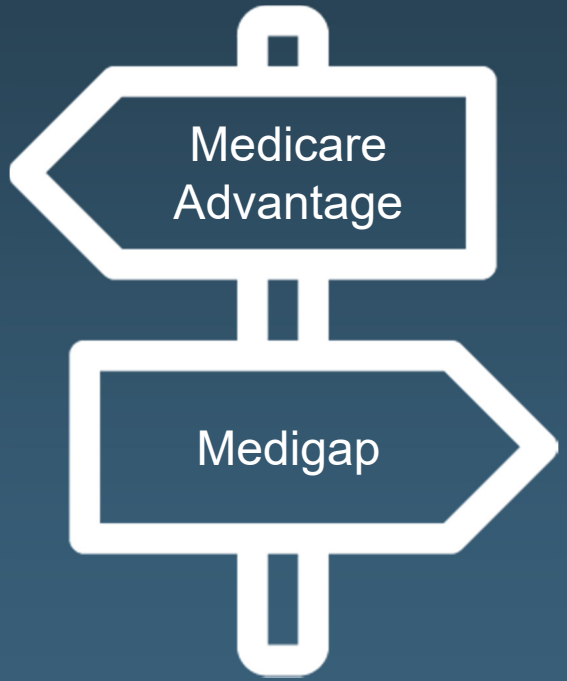
Part C

Premium cost and coverage options vary by plan

What is Part C?

Other insurance coverage that is in addition to Medicare Parts A and B – can possibly include coverage for dental, vision, prescription drugs, and hearing aids

Choose Medicare Advantage or Medigap



Enrollment and Loss of HSA Eligibility

When They CAN Enroll

Age **65**

Disabled

ESRD

When Is Someone Enrolled?

Automatic Enrollment

Initial Enrollment Period

Special Enrollment Period

General Enrollment Period

Automatic Enrollment

Age 65

+

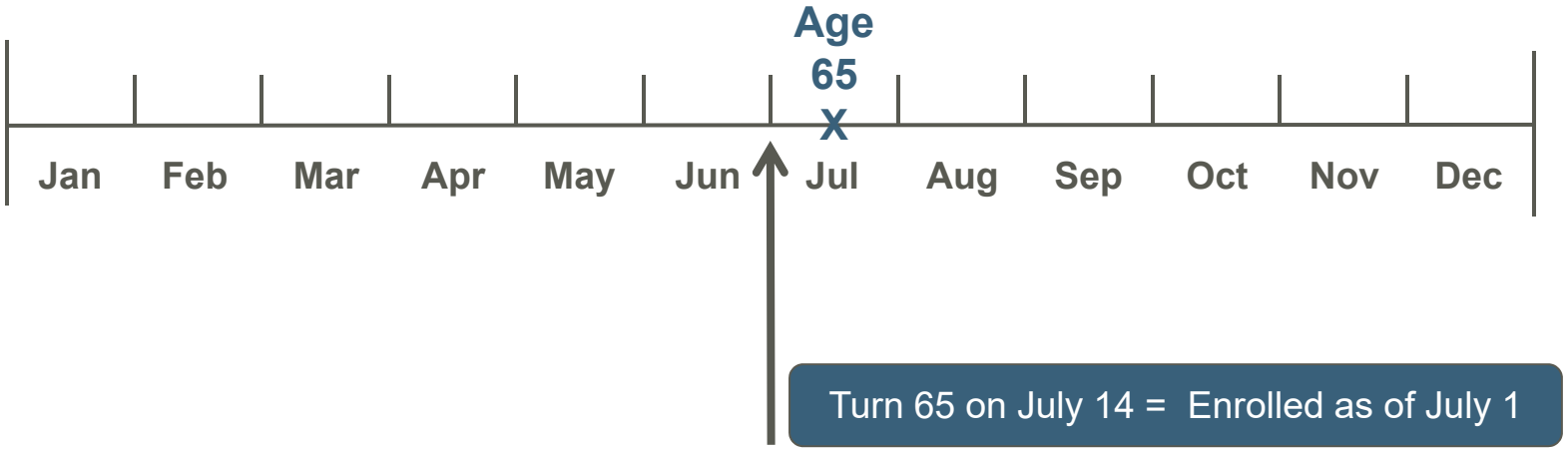
Receiving Social Security

=

Automatic Enrollment

Automatic enrollment is effective 1st day of month individual turns age 65
(unless birthday is on 1st day of the month; then enrollment starts 1st day of prior month.

Automatic Enrollment



Initial Enrollment Period

Age 65

+

Not Receiving Social Security

=

7-Month Enrollment Window

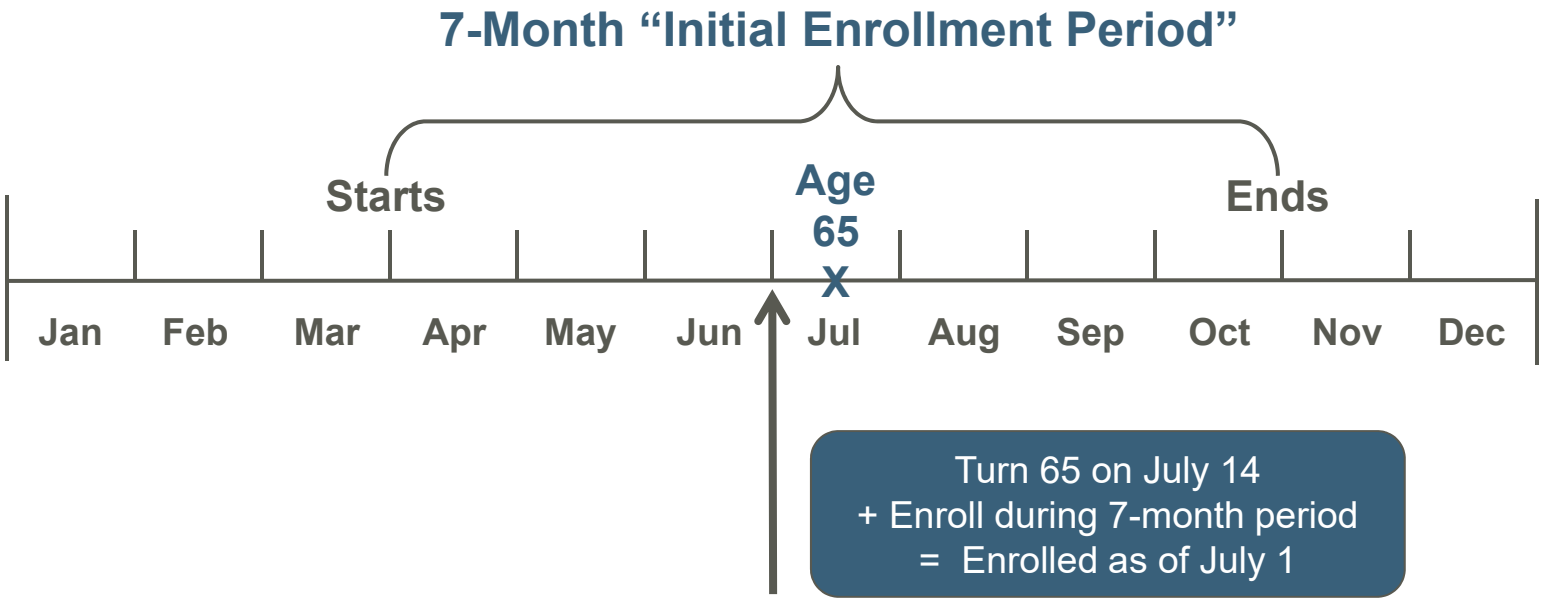
Individual must contact the Social Security Administration to sign up.
Failure to sign up during the window will subject individual to late enrollment penalties.

Initial Enrollment Period

If you enroll….	Part B Medicare coverage starts…
1-3 months before you reach age 65	The month you reach age 65
The month you reach age 65	1 month after the month you reach age 65*
One month after you reach age 65	2 months after the month of enrollment*
2-3 months after you reach age 65	3 months after the month of enrollment*

*Part A is retroactive to 1st day of month individual turns age 65 (or the prior month if his or her birthday is on 1st day of the month).

Initial Enrollment Period



Special Enrollment Period

Age 65
+
Still working
(or spouse is working)
+
Covered by a
'group health plan'
with an employer

Can enroll….

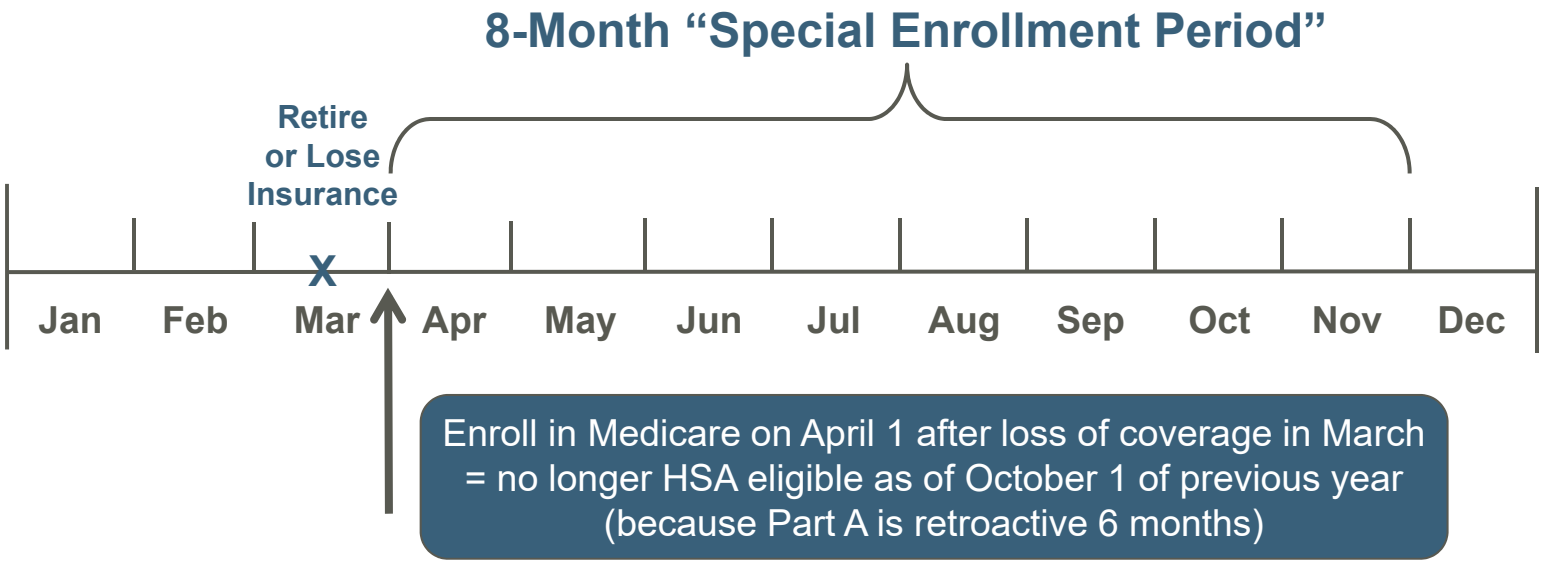
8 months following month individual retires or employer coverage ends

OR

During any month individual is still covered by employer's health plan

Contact Social Security Administration to sign up. Once signed up, Part A coverage is retroactive 6 months. Failure to sign up during the window will subject individual to late enrollment penalties for Parts B and D.

Special Enrollment Period



Special Enrollment Period

If an individual has an HSA with an HDHP based on her spouse's current employment, she may be eligible for a special enrollment period. To avoid a penalty tax, **the individual should stop contributing to her HSA at least 6 months before she applies for Medicare.** She can withdraw money from her HSA after she enrolls in Medicare to help pay for medical expenses (e.g., deductibles, premiums, coinsurance, or copayments). If the individual wants to continue receiving health benefits through an HSA-like benefit structure after enrolling in Medicare, a Medicare Advantage medical savings account (MSA) plan might be an option.

"Part A & Part B sign up periods," Medicare.gov, https://www.medicare.gov/sign-up-change-plans/how-do-i-get-parts-a-b/part-a-part-b-sign-up-periods

General Enrollment Period

You didn't enroll under the initial or special enrollment periods

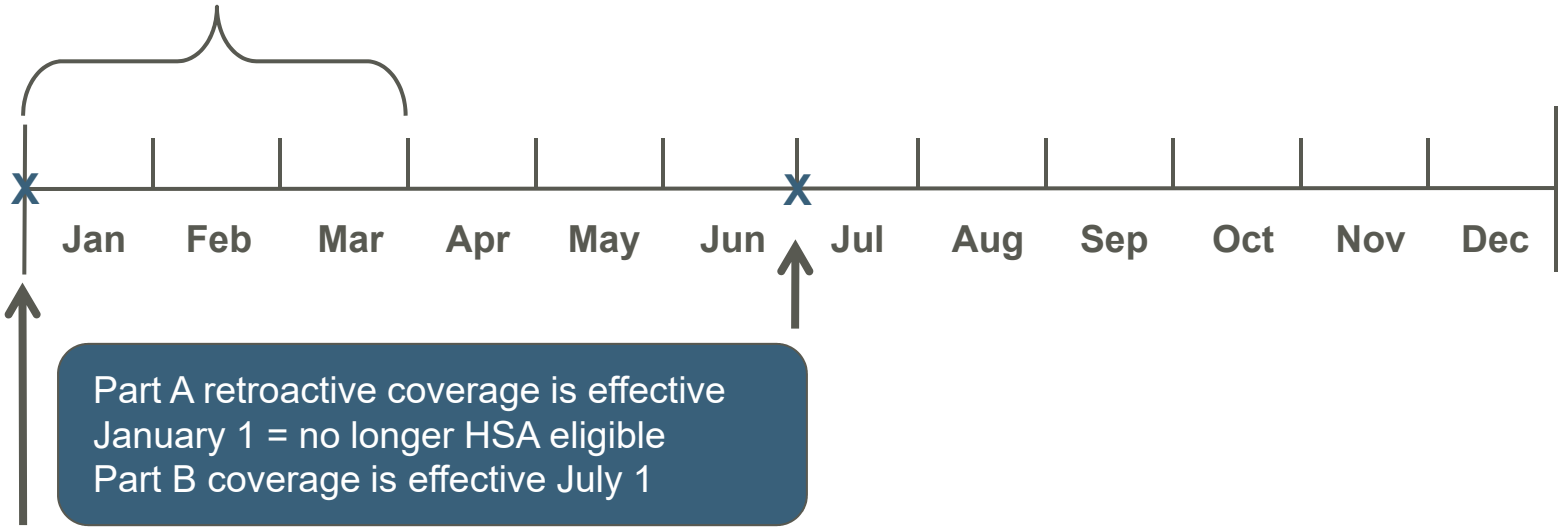
Sign up between January 1–March 31 each year

Enrollment effective dates
Part B - July 1
Part A - January 1

Late enrollment penalties will apply to Parts B and D

General Enrollment Period

“General Enrollment Period”



Late Enrollment Penalties

Part B premium goes up 10% for each year you do not have coverage

Part D premium increases by 1% for each month you do not have coverage

What Happens to an HSA After Enrollment?

Individual is no longer HSA eligible; contributions for the year of enrollment must be pro-rated

Individual can still withdraw funds to pay for qualified medical expenses

Individual can let HSA assets grow

Medicare Enrollment and Pro-Rated HSA Contributions

2019 Family limit = $5,250 ($7,000/12 x 9)
Mary's catch-up = $250 ($1,000/12 x 3)
George's catch-up = $750 ($1,000/12 x 9)

Does Medicare Enrollment Affect Individual's Spouse?

- Signs up for Medicare parts A and B
- No longer HSA eligible

Spouse Age 65

- Continues family HDHP to cover self and provide additional coverage for spouse
- Contributes family limit to HSA
- Uses HSA money for self and spouse

Spouse Age 62

Out-of-Pocket Medical Costs in Retirement

Medicare and Social Security

- Average out-of-pocket medical costs for retirees totals **$4,274** per year
- Average retiree spends **34.3%** of his Social Security on out-of-pocket medical costs
- Premiums account for **2/3** of out-of-pocket medical costs (and the Part B premium is automatically deducted from the benefit)

Source: "How Much Does Out-of-Pocket Medical Spending Eat Away at Retirement Income?", Melissa McInerney, Matthew Rutledge, and Sara Ellen King, Health and Retirement Study, Center for Retirement Research at Boston College, October 2017, http://crr.bc.edu/wp-content/uploads/2017/10/wp_2017-13.pdf.

Total Cumulative Out-of-Pocket Costs are Significant

Not all **expenses** are covered by Medicare

Average out of pocket costs by **age 75**

$50,900

Medical expenses **increase** with age

By **age 85** average total out of pocket costs

$146,400

Source: Dale H. Yamamoto, “Health Care Costs—From Birth to Death,” Health Care Cost Institute, Independent Report Series, Report 2013-1, June 2013, https://www.healthcostinstitute.org/images/easyblog_articles/134/Age-Curve-Study_0.pdf

HSAs Can Maximize Medical Spending Tax Efficiency

	Traditional IRA	Roth IRA	HSA
Contributions	$135,000	$135,000	$135,000
Earnings	$179,924	$179,924	$179,924
Total Balance	$313,924	$313,924	$313,924
Ordinary Income Tax	$69,063	$29,700	$0
FICA Taxes	$10,328	$10,328	$0
Total Taxes	$79,391	$40,208	$0

Can an HSA Be Used to Pay for Medicare Premiums?

IRS Notice 2004-2

Q–27. Are health insurance premiums qualified medical expenses?

A–27. Generally, health insurance premiums are not qualified medical expenses **except for the following:** qualified long-term care insurance, COBRA health care continuation coverage, and health care coverage while an individual is receiving unemployment compensation. In addition, **for individuals over age 65, premiums for Medicare Part A or B, Medicare HMO,** and the employee share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance can be paid from an HSA. Premiums for Medigap policies are not qualified medical expenses.

What if the HSA is Used for Other Expenses?

Under Age 65

Pay income tax
AND
20% penalty tax

Age 65+

Pay income tax only

How Do Financial Organizations Play a Role?

Education for Older Customers

- No HSA contributions after Medicare enrollment
- Prorated contributions for year of Medicare enrollment
- HSA-eligible expenses include Medicare premiums
- Spouse not enrolled in Medicare can still contribute
- No penalty tax on distributions that are not for qualified medical expenses at age 65

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Questions?

Thank you for attending

Medicare and the Health Savings Account

We Appreciate Your Opinion

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