Changes to your HSA When You Reach 65

Purpose: This worksheet is designed to educate HSA owners reaching age 65 on three key HSA changes.
(1) Penalty Free Withdrawals. At age 65, you are eligible to take money out of your HSA for any reason.
(2) Pay for Health Insurance Premiums. At age 65 you can use your HSA to pay for some insurance premiums.
(3) Loss of HSA Eligibility. At age 65, most Americans lose HSA eligibility because they begin Medicare.

1 Age 65 General Distributions

At age 65, you can take penalty-free distributions from the HSA for any reason. However, in order to be both tax-free and penalty-free the distribution must be for a qualified medical expense. Withdrawals made for other purposes will be subject to ordinary income taxes. Given that Medicare does not cover all of your medical expenses, most HSA owners over 65 continue to use their HSA funds for qualified medical expenses. This will ensure they get the maximum benefits from their HSA.

Example. Bill, age 66, wants to take money out of his HSA to pay for general retirement expenses (not qualified medical expenses). Bill will <u>not</u> have to pay the 20% penalty for non-eligible HSA withdrawals because he is over the age 65, but he will be subject to income taxes on the distribution. If instead Bill uses his HSA for a qualified medical expense he can use the funds tax-free <u>and</u> penalty-free.

2 Health Insurance Premiums

At age 65, you can use your HSA to pay for Medicare parts A, B, D and Medicare HMO premiums tax-free <u>and</u> penalty-free. You cannot use your HSA to pay for Medigap insurance premiums. You can also use your HSA to pay the employee share of premiums for employer-sponsored health care (employee paid portions of employer sponsored health care may already be pre-tax). Using HSA money is an especially good method to pay for Medicare as it is challenging to pay for Medicare with pre-tax dollars. If your Medicare premium is automatically deducted from your Social Security check, you simplify reimburse yourself directly from your HSA for the Medicare premiums paid from your Social Security payment.

3 Continued Eligibility for an HSA

Most Americans become eligible for Medicare at age 65. Americans that begin receiving Social Security benefits prior to age 65 are automatically enrolled in Medicare at age 65. Participation in any type of Medicare (Part A, Part B, Part C - Medicare Advantage Plans, Part D, and Medicare Supplement Insurance - Medigap), makes you ineligible to <u>contribute</u> to an HSA. However, you can continue to use your HSA for qualified medical expenses and for other expenses for as long as you have funds in your HSA.

Loss of Eligibility in Month You Turn 65. You lose eligibility as of the first day of the month you turn 65 and enroll in Medicare.

Example. Sally turns 65 on July 21 and enrolls in Medicare. She is no longer eligible to contribute to her HSA as of July 1. Her maximum contribution for that year would be 6/12 (she was eligible the first 6 months of the year) times the applicable federal limit (remember to include the catch-up amount). See our <u>Eligibility and Contribution Worksheet</u> and the next page for details.

See Page 2 for More Details

Calculating Your HSA Contribution for the Year You Turn 65

Final Year's Contribution is Pro-Rata. You can make an HSA contribution after you turn 65 and enroll in Medicare, if you have not maximized your contribution for your last year of HSA eligibility. You have until April 15 of the year following the tax year you lose HSA eligibility to make your HSA contribution. You can do so even if you are no longer eligible for an HSA so long as you are making a contribution for a period when you were eligible.

Example. Jim was covered by a self-only HDHP and eligible for an HSA in 2015 but turned 65 on July 2, 2015, and enrolled in Medicare. Jim lost eligibility for an HSA as of July 1, 2015. For 2015, Jim was eligible for 6 months of the year. The federal HSA limit for Jim is $4,350 ($3,350 individual HSA limit plus a $1,000 catch-up). Accordingly, Jim's calculation is 6/12 X $4,350 = $2,175. Jim's maximum contribution for 2014 is $2,175. Jim has until April 15, 2016 to make this contribution. See our Eligibility and Contribution Worksheet for details.

Remaining HSA Eligible Past Age 65

To be able to contribute to an HSA after age 65, you must not enroll in Medicare. HSA rules make a distinction between being merely "eligible" for Medicare (keep HSA eligibility) and being "entitled" to or "enrolled" in Medicare (lose HSA eligibility). You become enrolled in Medicare under Part A by filing an application or being approved automatically. The Social Security Administration automatically "enrolls" you in Medicare Part A when you begin collecting Social Security benefits. Accordingly, if you are receiving Social Security payments and are over 65, you are almost certainly enrolled in Medicare Part A. Also, employees that work for smaller employers (fewer than 20 employees) will have Medicare as their primary insurance at age 65. Some people; however, avoid enrolling in Medicare and being automatically enrolled by waiting to receive Social Security. If you are not enrolled in Medicare and are otherwise HSA eligible, you can continue to contribute to an HSA after age 65. You are also allowed to contribute the $1,000 catch-up.

Stopping Medicare to Reclaim HSA Eligibility

If you signed up for Medicare Part A and now want to decline it, you can do so by contacting the Social Security Administration. Assuming you have not begun receiving Social Security checks this will reestablish your eligibility for an HSA. If you have applied for or have begun receiving Social Security, you cannot opt out of Medicare Part A without paying the government back all the money you received from Social Security payments plus paying the government back for any money Medicare spent on your medical claims. This action will also stop future Social Security payments (until you reapply and start this cycle over again).

Spouse Under Age 65

If your spouse is under age 65 that may provide an avenue for continued HSA contributions. An employer; however, cannot make HSA contributions into the HSA of an employee's spouse.

Example. *Dick and Adelle are covered under a family HDHP provided through Dick's employer. Dick reaches age 65 in July and enrolls in Medicare. Dick's employer makes HSA contributions and allows Dick to make pre-tax payroll deferrals as well. Dick's employer continues to provide family HDHP coverage for both Dick and Adelle. Adelle, age 58, can now open an HSA and contribute the family maximum (plus the catch-up as she is over age 55) because she remains covered by a family HDHP and is otherwise eligible. Adelle can use her HSA for Dick's medical expenses. Adelle cannot put her HSA contribution into Dick's HSA and will have to open her own HSA. Dick's employer will stop HSA employer contributions and cannot allow Dick to defer pay pre-tax into Adelle's HSA.*