

Know Your Benefits

Health Savings Accounts and Age 65

Health savings accounts (HSAs) are tax-advantaged savings accounts that individuals can use to save money for medical expenses. You own the account, not your employer, and any money in the account that you don't spend carries over to the next year; there are no "use it or lose it" rules as with other types of health accounts.

You can only contribute to an HSA if you are covered with a high deductible health plan (HDHP). If you switch to any other health plan or have other health coverage, you will lose your eligibility to contribute to an HSA. However, you may spend the funds in your HSA even if you switch to non-HDHP coverage.

When you reach age 65, your HSA eligibility will change due to Medicare, as will the rules for withdrawing funds.

Effects of Medicare

At age 65, you become eligible for Medicare and may be automatically enrolled. Enrolling in Medicare ends your HSA eligibility in one of two ways:

- If Medicare is your only health insurance, you are no longer eligible to contribute to an HSA because Medicare is not an HDHP.
- If you have Medicare as secondary coverage in addition to an employer-sponsored HDHP, you will also lose HSA eligibility because you have "other coverage."

When you turn 65 and begin Medicare coverage, you lose HSA eligibility on the first day of that month. For example, if your birthday is April 19, you are no longer eligible to contribute to an HSA as of April 1. For the months prior to your birthday, you are still eligible for an HSA (assuming you have an HDHP). Your maximum contribution is determined by adjusting the HSA maximum in accordance with how many months of the year that you were eligible. For example, if you

turn 65 in April, you were eligible for the first three months of the year. You can then contribute 3/12 of the HSA annual contribution maximum.

If you file an application to receive Medicare benefits (or for Social Security benefits) more than six months after turning age 65, Medicare Part A coverage will be retroactive for six months. This means that if you delay applying for Medicare (or Social Security) and are later covered retroactively, you cannot contribute to your HSA for the entire period of retroactive coverage.

Although you are only eligible to contribute for the months preceding your 65th birthday and Medicare enrollment, you typically have until April 15 of the following year (the tax filing deadline) to put the money in the HSA.

If you reach age 65 and have an employer-sponsored HDHP, you must avoid Medicare enrollment if you would like to remain eligible for your HSA. This option is likely only feasible if your health plan is through an employer that has 20 or more employees; if you work for a small employer with fewer than 20 employees, your employer-sponsored plan will become secondary to Medicare once you turn 65. In addition, if you don't enroll in Medicare Part A when you're first eligible, you may have to pay a penalty in the form of a higher Medicare premium for a period of time, once you do enroll in Medicare.

Larger employers' plans continue to pay primary whether or not you have Medicare. Therefore, if you work for an employer that has 20 or more employees, you can decline Medicare and continue your employer-sponsored HDHP as long as you are also not accepting Social Security benefits.

If you are receiving Social Security retirement benefits, you will be automatically enrolled in Medicare at age 65 and lose your eligibility to contribute to an HSA.

Withdrawals after Age 65

Before age 65, the money in an HSA can only be used tax-free for qualified medical expenses. If you withdraw your HSA funds for anything else, the money will not only be taxed, but you will also pay a 20% penalty fee.

After age 65, the rules regarding use of your HSA funds change in the following ways:

- Health insurance premiums—You can use your HSA funds tax- and penalty-free to pay premiums for employer-sponsored health coverage or for Medicare.
- Nonmedical retirement expenses—Although money used for nonmedical expenses will be subject to federal—and usually state—income taxes, after age 65 you will not be subject to the 20% penalty fee.

After age 65, your eligibility will typically end for HSA contributions. However, your options expand for using the money that you have saved in the account.