Social Security, Medicare, and HSAs

Teresa A. Sampleton, CLU, ChFC, CFP®
Vice President
Sampleton Wealth Management

123 Main Street
12th Floor
New York, NY 10018

888-336-6884

tsampleton@sampletonwealth.com
www.sampletonwealth.com

–Elaine Floyd, CFP®

If your employer health plan is a health savings account (HSA) paired with a high-deductible health plan (HDHP), you may have a problem when you turn 65.

Why? Because once you enroll in Medicare at 65, you (or your employer) may no longer contribute to your HSA. That's just a rule.

I know what you're thinking: Can you simply not enroll in Medicare at 65? This would allow you to stay on the employer plan and keep those HSA contributions flowing in so you can build up a nice pot of tax-free money to use for future medical expenses. The answer: probably not.

Social Security and Part A

Let's explore this. There are certain circumstances under which Medicare enrollment is required. One is if you are receiving Social Security. If you file for Social Security and are 65 or older, you are required to enroll in Medicare Part A. That's just a rule. Section HI00801.002 of the SSA Program Operations Manual System (POMS) states, "Individuals entitled to monthly benefits which confer eligibility for HI may not waive HI entitlement. The only way to avoid HI entitlement is through withdrawal of the monthly benefit application. Withdrawal requires repayment of all RSDI and HI benefit payments made."

So if you are planning to apply for Social Security retirement, spousal, or survivor benefits, just know that you will be automatically enrolled in Medicare Part A – retroactive six months if you are 65-1/2 or older – and there can be no HSA contributions for the period of time you have Part A. If contributions have already been made, they will need to be backed out in order to avoid a 6% overcontribution penalty.

Other health insurance

Since Medicare Part A covers hospitalizations only, and since you will now no longer be eligible for the HSA/HDHP plan offered by your employer, you will need to have other health insurance to cover doctor visits, lab work, procedures, prescription drugs, and so on. You might ask your employer if there is another type of plan that does not involve an HSA. Or, you might go fully onto Medicare, enrolling in Parts B and D and seeking supplemental insurance to fill in the gaps. Because it is heavily subsidized by the government, Medicare may actually be a better plan for you anyway.

Does plan cover fewer than 20?

Another circumstance that requires you to enroll in Medicare at 65 is if you are not covered by an employer group plan that covers 20 or more employees. So if your employer's HSA/HDHP plan covers fewer than 20, you must enroll in Medicare at 65. What if you don't enroll at 65? You may not have health insurance. For people age 65 and older, plans that cover fewer than 20 employees pay secondary to Medicare. This means that if you go to the doctor the bill will first be submitted to Medicare. If you are not enrolled in Part B, Medicare won't pay. And if Medicare doesn't pay its 80% share of the bill, your health plan may not pay its share either. So nobody pays. Also, there are late enrollment penalties for enrolling in Part B after age 65 unless you are covered by an employer group plan that covers 20 or more employees.

When you can keep your HSA after age 65

If you are 65 or older and: 1) your employer's HSA/HDHP plan covers 20 or more employees; and 2) you are not receiving Social Security, you are not required to enroll in Medicare. This means you can stay on the HSA/HDHP and continue to have HSA contributions made on your behalf. Do be aware, though, that if you enroll in any part of Medicare, those HSA contributions would have to stop.

Also be aware that the high-deductible health plan that is paired with your HSA may not offer creditable drug coverage as defined by Medicare. If it doesn't, you may have to pay a late-enrollment penalty when you eventually do enroll in Medicare Part D.

Keep HSA for spending

Even if Medicare enrollment disallows further HSA contributions, you can still use your HSA to pay for qualified medical expenses in retirement, including your Part B premiums.

We recommend that everyone turning 65 call the Social Security Administration (800-772-1213), explain their current health insurance situation, and ask if they need to enroll in Medicare. In addition, it pays to explore all of your health care options. Even if you are not required to enroll in Medicare, you may want to.

Elaine Floyd, CFP®, is the Director of Retirement and Life Planning, Horsesmouth, LLC., where she focuses on helping people understand the practical and technical aspects of retirement income planning.