AssuredPartners

Medicare & HSA Eligibility

Updated October 2023

Background

One of the topics we see most often is health savings accounts (HSAs) in general, but more specifically we often face the question of how HSAs interact with Medicare. This article is meant to address the question of how a spouse's eligibility for or enrollment in Medicare could affect an employee's HSA eligibility.

HSA-Eligibility

First, it is important to remember that HSA-eligibility is based on three things:

- Enrollment in a qualifying high-deductible health plan (HDHP);
- No other "disqualifying coverage"; and
- Not being able to be claimed as a tax dependent by another individual.

Eligibility for an HSA is determined monthly based on the coverage in effect as of the 1st of the month.

Second, it is important to note that HSA-eligibility and health plan eligibility are two different things[1]. In other words, an individual who is not HSA-eligible may still be eligible for the underlying HDHP, and losing HSA-eligibility does not mean that somebody also loses eligibility for the HDHP.

HSA Contribution Rules

Here is a high-level overview of the major contribution rules for HSAs:

1. Individuals may make a maximum annual contribution to their HSA according to statutory limits (indexed annually):

Maximum Contribution Limits

Type of Coverage	2023	2024

[1] Eligibility for an HDHP is different from eligibility to contribute to an HSA. Eligibility for the HDHP will depend upon the plan eligibility rules set by the employer and/or insurance carrier (e.g., averaging 30 or more hours of service per week), whereas eligibility to contribute to an HSA is determined by federal laws and regulations. Therefore, while an individual must be enrolled in a qualifying HDHP to be eligible to contribute to an HSA, an individual who is ineligible to contribute to an HSA could still enroll in HDHP coverage so long as the plan eligibility requirements are met.

Single-Only	$3,850	$4,150
Family (other than "single-only")	$7,750	$8,300

2. Annual contributions are prorated – 1/12 of the allowable annual maximum for each eligible month of coverage (eligibility determined as of 1st of month).
3. Additional annual "catch-up" contribution of up to $1,000 (prorated based on monthly eligibility) permitted for individuals who are 55 or older.
4. Special Contribution Rules:
    a. Full/Last Month Contribution Rule for individuals who become HSA-eligible later in the calendar year (must remain eligible for entire next year).
    b. Special Rule for Spouses: If one spouse has family HDHP coverage, both spouses are considered to have it and may only make a combined contribution of up to the family max.
5. Contributions for a calendar year may be made up until the tax filing deadline for the year (typically April of following year).
6. Once contributions are made to an HSA, they remain available for qualifying medical expenses even after loss of HSA-eligibility.
7. Excess contributions are subject to a 6% excise tax if not corrected.

With these eligibility and contribution considerations in mind, let's look specifically at Medicare as a type of disqualifying coverage and some of the ways it interacts with an individual's HSA-eligibility.

Medicare Eligibility Versus Medicare Entitlement

It's important to distinguish between "eligibility for" Medicare and actual "entitlement to" (i.e., enrollment in) Medicare.

Merely being eligible for Medicare does not make somebody ineligible to establish/contribute to an HSA. Therefore, simply turning 65 does not interfere with a person's HSA eligibility. If an individual who turns 65 delays enrollment in Medicare, then that person may still contribute to an HSA if otherwise eligible to do so.

Situation: Gerry turns 65 and becomes eligible for Medicare based on age. However, he delays his application for Social Security because he still has access to health insurance through his employer. Therefore, he does not become entitled to (enrolled in) Medicare.

Analysis: Gerry's eligibility for Medicare does not interfere with HSA-eligibility. If he is otherwise eligible to contribute to an HSA, he may do so until he enrolls in (i.e., becomes entitled to) Medicare.

However, individuals that become entitled to (i.e., who enroll in) Medicare become ineligible to contribute to an HSA as of the first of the month following Medicare enrollment. For example, if an individual enrolls in Medicare mid-January, they become ineligible for an HSA on February 1st. And an individual whose Medicare effective date is the first of the month simultaneously loses HSA-eligibility. (However, any funds that have already been contributed to that person's HSA remain available to use for qualifying medical expenses. Also recall that an individual losing HSA-eligibility midyear may continue to make HSA contributions for that year, but their annual maximum will be affected – refer to HSA Contribution Rules #2, above.)

Medicare Part A enrollment is automatic for some individuals (i.e., those who are already receiving Social Security benefits when they turn 65). These individuals simultaneously become eligible, enrolled, and entitled upon reaching age 65, and thus become ineligible for an HSA. Choosing not to enroll in Part B does not help; Part A alone makes an individual ineligible to contribute to an HSA. Other individuals that are not receiving Social Security benefits will merely become eligible for Medicare upon reaching age 65 but must file an application in order to become enrolled in or entitled to Medicare benefits.

Employees who have coverage under an employer-sponsored plan may want to delay Medicare enrollment for things such as maintaining eligibility to contribute to an HSA. But keep in mind that if entitlement to Medicare is delayed by deferring receipt of Social Security Benefits, then once a person is enrolled, Medicare benefits are generally retroactive up to 6 months, which means HSA ineligibility is retroactive as well. In this case, it is advisable to either cease making any contributions prior to enrolling in Medicare or calculate the maximum contribution for the year and contribute accordingly (e.g., if the individual enrolled in Medicare on November 1, the effective date may be backdated to April 1, which means the individual would only have been HSA eligible for

Situation: Antonio is enrolled in single coverage under his employer's HDHP. He is HSA-eligible and contributes to an HSA. Antonio turns 65 in June 2023 but delays Medicare entitlement because he continues to work. In February of 2024, Antonio retires and applies for Medicare. His application is approved in March and his effective date is backdated 6 months to October 1, 2023.

Analysis: Antonio was HSA-eligible for 9 months during 2023 and is eligible to make a maximum contribution of [$4,850 ($3,850 + $1,000)/12] for each of his 9 eligible months [(4,580/12 x 9)→ $3,637.5]. He has until the tax filing deadline in April of 2024 to make his contributions for 2023.

3 months (January, February, and March), and the maximum HSA contribution for that year would be 3/12 of the annual maximum + 3/12 of the $1,000 catch-up contribution).

Spouses and Medicare Eligibility/Entitlement

Many questions arise about what happens when an individual or their spouse becomes enrolled in (i.e., entitled to) Medicare. Let's look at this from the perspective of a spouse who becomes entitled to Medicare, specifically considering:

- The impact to the spouse's HSA-eligibility;
- The impact to the spouse's health plan eligibility; and
- The impact to the employee's HSA eligibility.

Impact to the spouse's HSA-eligibility

As noted above, individuals that become entitled to Medicare become ineligible to contribute to an HSA as of the first of the month following Medicare enrollment. For example, if an individual enrolls in Medicare mid-January, they become ineligible for an HSA on February 1st. And an individual whose Medicare effective date is the first of the month simultaneously loses HSA-eligibility. (However, any funds that have already been contributed to that person's HSA remain available to use for qualifying medical expenses.)

Impact to the spouse's health plan eligibility

Neither Medicare eligibility nor Medicare entitlement alone will make a spouse ineligible to continue coverage under the HDHP. Unless the employer's plan specifically excludes Medicare-eligible or Medicare-entitled spouses from coverage (and most will not, due to Medicare Secondary Payer requirements), then as long as the spouse otherwise meets the plan's eligibility criteria, they may remain enrolled on the group health plan.

Impact to the employee's HSA-eligibility

A spouse's Medicare entitlement (and resulting HSA-ineligibility) does not impact the employee's HSA-eligibility or ability to contribute to an HSA if the employee is otherwise eligible to do so. And if the spouse (or other dependent) remains enrolled on the employee's HDHP, then the employee will still be able to contribute up to the statutory annual maximum amount for family HDHP coverage ($8,300 for 2024). Moreover, funds from the employee's HSA may be used to reimburse the HSA-ineligible spouse's qualifying medical expenses.

Example: Kate is 56, is enrolled in family HDHP coverage through her employer, and is eligible as of January 1, 2023, to contribute to an HSA. In July, her spouse becomes entitled to Medicare.

Analysis: As long as Kate remains HSA-eligible, her spouse's Medicare entitlement has no effect on her ability to contribute to an HSA. (And funds from the HSA may still be used to reimburse her spouse's qualifying medical expenses.) If Kate remains on the family plan, she may contribute [$8,750 ($7,750 + $1,000)/12], or $729.16, for each month of HSA-eligibility during 2023. She has until the tax filing deadline (April 2024) to make these contributions.

Contribution Considerations for Employees with Midyear Entitlement to Medicare

For an employee who begins the year contributing to an HSA, there are some considerations that arise if that employee subsequently enrolls in Medicare and loses HSA-eligibility. Here are some of the most common scenarios that we see come up:

1. **Situation:** Employee loses HSA-eligibility midyear but continues contributing to their HSA.

   Analysis: Depending on how large the monthly contributions are, this may or may not be an issue. If the employee has not exceeded the maximum contribution amount for the number of months they were HSA-eligibility, there is no issue with excess contributions. For example, if an individual with single-only HDHP coverage contributes $50/month to their HSA and loses HSA-eligibility 5 months into 2024, they will have been eligible for [($4,150/12) x 5] or $1,729.16 for the 2024 calendar year. Contributing $50/month will not exceed this amount, so the employee does not need to stop making contributions in 2024 upon losing HSA-eligibility. On the other hand, if the employee was making a larger monthly contribution that exceeded the maximum allowable amount, they will need request a curative distribution before the tax filing deadline to avoid the 6% excise tax that applies to excess contributions.

2. **Situation:** Employer realizes late in the year that an employee lost HSA-eligibility early in the year when they enrolled in Medicare but continued to make pre-tax payroll contributions to their HSA that exceeded the maximum allowable amount.

   Analysis: The employer's obligations here are limited – an employer generally is not responsible for monitoring its employees' HSA-eligibility. The employer should work to stop any additional contributions and could, but is not required to, report the excess contributions as wages on the employee's W-2. To avoid the 6% excise tax applicable to excess contributions, the employee themselves will need to request a curative distribution for the excess amount from the HSA custodian prior to the tax filing deadline.

3. **Situation:** Max is 49 and covers himself and his children under his employer's HDHP and contributes to an HSA. Max becomes entitled to Medicare based on a disability effective August 1, 2023. His spouse Dan is 48 and has single-only coverage under his employer's HDHP and is otherwise HSA-eligible.

   Analysis: Max and Dan are eligible to make a combined contribution 7/12 of the maximum family contribution (7/12 of $7,750, or $4,520.83 for 2023) to their HSAs for Max's 7 months of HSA-eligibility (due to the Special Rule for Spouses). For the remainder of the year, Dan may contribute 5/12 of $3,850 or $1,604.17 (unless the children transfer to his plan, in which case he could contribute 5/12 of $7,750, or $3,229.16, for the remaining months).

Conclusion

There are many rules to remember with respect to both Medicare eligibility/enrollment <u>and</u> with respect to HSAs. Figuring out how they work together can seem overwhelming. But for the most part, Medicare functions just like any other disqualifying coverage – entitlement makes an individual ineligible to contribute to their HSA any longer, and midyear enrollment in Medicare will impact the annual allowable HSA contribution. Of course, there are many potential complexities that may come into play, but the general rules are the same.