# Medicare

# Tricare

# VA Benefits

# And Health Savings Accounts

SelectAccount
The benefit of knowing

# Medicare and HSA

As you approach retirement age your health plan needs will be changing. It is important to understand how Medicare may impact your HSA. By law, people eligible, entitled, or enrolled in Medicare are no longer allowed to contribute to an HSA. Use the following information to determine when you should cease contributing to your HSA and how you should manage and utilize the account going forward.

## Contributing to an HSA

Overview of IRS rules regarding Health Savings Accounts

**ARE YOU 65 OR OVER?**

(If you or your spouse are 65 or are approaching age 65, seek the advice of a tax professional before making any decisions.)

### NO

I am an active worker.

You may contribute to an HSA up to the IRS maximum if you are enrolled in an IRS-qualified high-deductible plan and do not have coverage other than a qualifying HSA high-deductible health plan (including a spouse's Flexible Spending Account).

I am retired or retiring.

**HSA Account** — If you are enrolled in an IRS-qualified high-deductible plan and do not have coverage other than a qualifying HSA high-deductible health plan (including a spouse's Flexible Spending Account), you may continue to contribute to an HSA until you turn 65 (for details, see boxes at right). If you have an HSA through SelectAccount, your employer-sponsored account will become an individual account upon retirement, and you will be responsible for account fees.

**Health Plan** — Upon your retirement, refer to the health benefit information you receive in your retirement packet.

### YES

I am still an active worker but receive Social Security benefits and have been automatically enrolled in Medicare Part A.

**HSA Account** — You CANNOT fund an HSA.

**Health Plan** — You may remain in an HDHP.

I am still an active worker and do NOT receive Social Security benefits.

Are you entitled to or enrolled in Medicare Part A, B, D, or any other Medicare benefit? (Check with the Social Security Administration to verify.)

YES

**HSA Account** — You CANNOT fund an HSA.

**Health Plan** — You may remain in an HDHP.

NO

**HSA Account** — If you are enrolled in an IRS-qualified high-deductible health plan, you may continue to fund an HSA.

**Health Plan**—You may remain in an HDHP.

→ **Note:** If your spouse is age 65 or over and has applied for or begun receiving Social Security benefits (and is entitled to or enrolled in Medicare), he or she cannot contribute to an HSA. You may contribute up to the family maximum provided your spouse is enrolled as your dependent under your HDHP coverage.

→ **Post-deductible Medical FSA:** A post-deductible medical FSA can be offered alongside an HSA and provides reimbursement after the annual health plan deductible has been satisfied. It can also be used for eligible dental and vision expenses before the deductible has been met.

## 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.*

**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 not 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 and 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 and 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 contribute 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 Eligibility and Contribution Worksheet and the next page for details.*

See Page 2 for More Details

## When Can You Sign Up?

### Initial Enrollment Period

You can sign up when you're first eligible for Part A and/or Part B (for which you pay monthly premiums) during your Initial Enrollment Period. For example, if you're eligible when you turn 65, you can sign up during the 7-month period that begins 3 months before the month you turn 65, includes the month you turn 65, and ends 3 months after the month you turn 65.

<table>
<tr><th>3 months before the month you turn 65</th><th>2 months before the month you turn 65</th><th>1 month before the month you turn 65</th><th>The month you turn 65</th><th>1 month after you turn 65</th><th>2 months after you turn 65</th><th>3 months after you turn 65</th></tr>
<tr><td colspan="3">Sign up early to avoid a delay in coverage. To get Part A and/or Part B the month you turn 65, you must sign up during the first 3 months before the month you turn 65.</td><td colspan="4">If you wait until the last 4 months of your Initial Enrollment Period to sign up for Part A and/or Part B, your coverage will be delayed. See chart below.</td></tr>
</table>

Note:
**If you're automatically enrolled, these enrollment periods don't apply to you.**

**If you sign up for Part A and/or Part B during the first 3 months of your Initial Enrollment Period, your coverage start date will depend on your birthday:**

- If your birthday **isn't** on the first day of the month, your Part B coverage starts the first day of your birthday month. For example, Mr. Green's 65th birthday is July 20, 2012. If he enrolls in April, May, or June, his coverage will start on July 1, 2012.
- If your birthday **is** on the first day of the month, your coverage will start the first day of the prior month. For example, Mr. Kim's 65th birthday is July 1, 2012. If he enrolls in March, April, or May, his coverage will start on June 1, 2012. To read the chart above correctly, use the month **before** your birthday as "the month you turn 65."

**If you enroll in Part A and/or Part B the month you turn 65 or during the last 3 months of your Initial Enrollment Period, your start date will be delayed:**

| If you enroll in this month of your initial enrollment period: | Your coverage starts: |
|---|---|
| The month you turn 65 | 1 month after enrollment |
| 1 month after you turn 65 | 2 months after enrollment |
| 2 months after you turn 65 | 3 months after enrollment |
| 3 months after you turn 65 | 3 months after enrollment |

## When Can You Sign Up? (continued)

### General Enrollment Period

If you didn't sign up for Part A and/or Part B (for which you pay monthly premiums) when you were first eligible, you can sign up between January 1–March 31 each year. Your coverage will begin July 1. You may have to pay a higher premium for late enrollment. See pages 28 and 30.

| If you sign up during these months: | Your coverage will begin on: |
|---|---|
| January | July 1 |
| February | |
| March | |

### Special Enrollment Period

If you didn't sign up for Part A and/or Part B (for which you pay monthly premiums) when you were first eligible because you're covered under a group health plan based on **current employment**, you can sign up for Part A and/or Part B as follows:

| | | |
|---|---|---|
| **Anytime that you or your spouse (or family member if you're disabled) is working, and you're covered by a group health plan through the employer or union based on that work** | Or | **During the 8-month period that begins the month after the employment ends or the group health plan insurance based on current employment ends, whichever happens first** |

Usually, you don't pay a late enrollment penalty if you sign up during a Special Enrollment Period. This Special Enrollment Period doesn't apply to people with End-Stage Renal Disease (ESRD). See page 21. You may also qualify for a Special Enrollment Period if you're a volunteer serving in a foreign country.

**Note:** COBRA and retiree health plans aren't considered coverage based on current employment. You're not eligible for a Special Enrollment Period when that coverage ends. To avoid paying a higher premium, make sure you sign up for Medicare when you're first eligible.

Blue words in the text are defined on pages 141–144.

## How Other Insurance Works with Medicare (continued)

Here are some important facts to remember:

- The insurance that pays first (primary payer) pays up to the limits of its coverage.
- The one that pays second (secondary payer) only pays if there are costs the primary insurer didn't cover.
- The secondary payer (which may be Medicare) may not pay all of the uncovered costs.
- If your employer insurance is the secondary payer, you may need to enroll in Part B before your insurance will pay.

These types of insurance usually pay first for services related to each type:

- No-fault insurance (including automobile insurance)
- Liability (including automobile insurance)
- Black lung benefits
- Workers' compensation

**Medicaid and TRICARE never pay first for services that are covered by Medicare.** They only pay after Medicare, employer group health plans, and/or Medicare Supplement Insurance have paid.

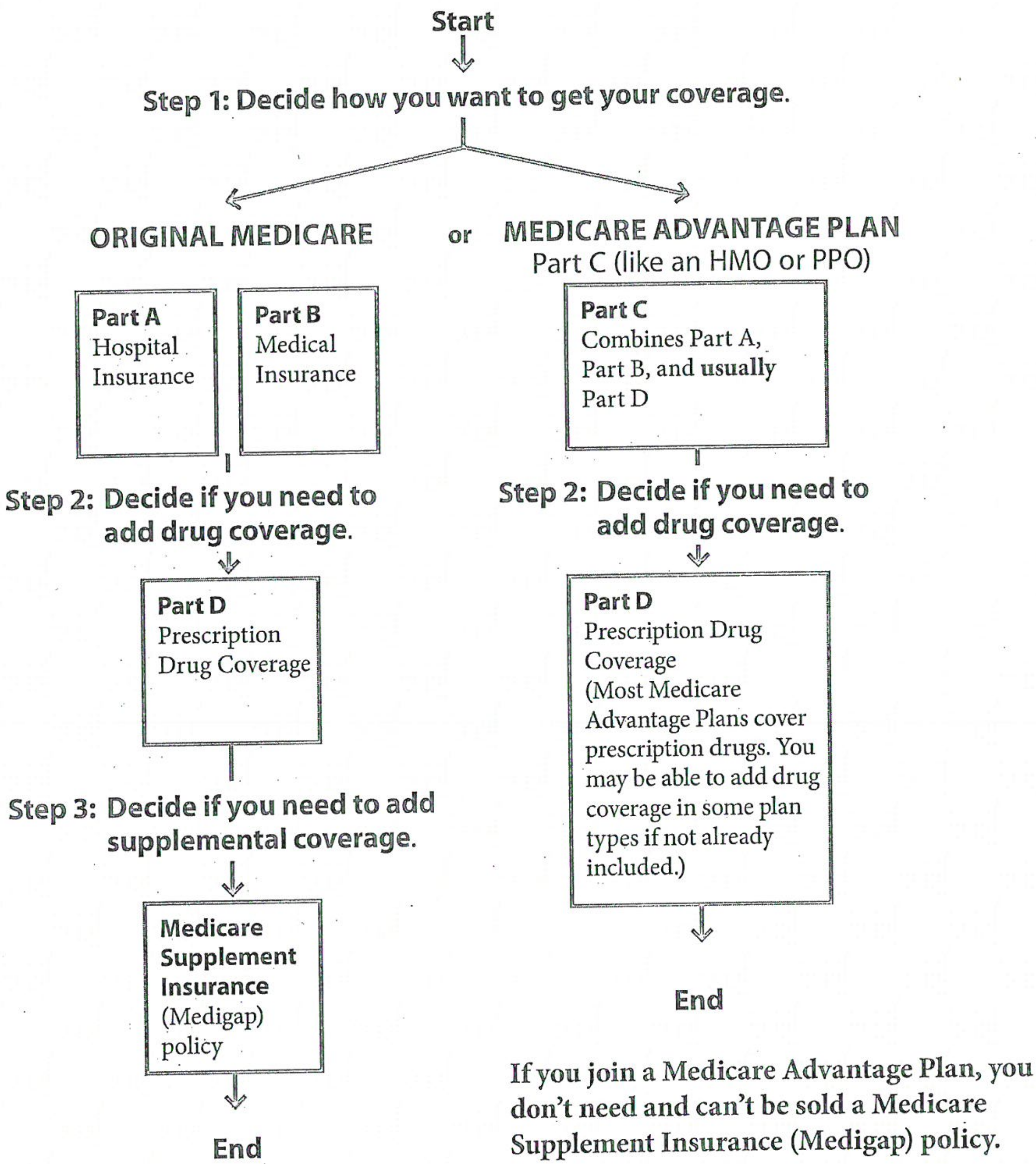
Blue words in the text are defined on pages 141–144.

For more information, visit www.medicare.gov/publications to view the booklet "Medicare and Other Health Benefits: Your Guide to Who Pays First." You can also call 1-800-MEDICARE (1-800-633-4227) to find out if a copy can be mailed to you. TTY users should call 1-877-486-2048.

If you have other insurance, tell your doctor, hospital, and pharmacy. If you have questions about who pays first, or you need to update your other insurance information, call Medicare's Coordination of Benefits Contractor at 1-800-999-1118. TTY users should call 1-800-318-8782. You can also contact your employer or union benefits administrator. You may need to give your Medicare number to your other insurers so your bills are paid correctly and on time.

## Your Medicare Coverage Choices at a Glance

There are two main ways to get your Medicare coverage: Original Medicare or a Medicare Advantage Plan. Use these steps to help you decide which way to get your coverage.




See page 57 for more details.

# IRS Rule Bars Some Veterans from HSAs

A ruling by the Internal Revenue Service is keeping thousands of veterans today from qualifying for health savings accounts (HSA).

Veterans who have used medical benefits through the Department of Veterans Affairs (VA) three months prior to enrollment into a high deductible health plan (HDHP) aren't eligible to make HSA contributions or receive HSA funds from an employer.

This means while companies comply with the new healthcare reform during open-enrollment season and some change their options to HDHPs and offer their employees HSAs to defray out-of-pocket expenses, employees who use VA services aren't eligible to participate in an HSA scheme that is made available to their nonveteran co-workers.

Yet not all veterans are excluded from HSAs. If someone who is individual eligible for VA medical benefits hasn't received such benefits in the preceding three months, he or she may participate in an HSA.

Not so lucky are active and retired servicemen and servicewomen covered under the military health plan TRICARE, or those who use the VA hospital. Such military personnel are prohibited from taking part in an HSA because their coverage options don't meet the minimum annual deductible requirements of an HDHP, which is $1,500 or $3,000.

More information can be found on the IRS Web site: **www.irs.gov**.

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