

MEDICARE ELIGIBILITY *and* YOUR HSA

Remaining HSA eligible past age 65

If you want to continue to contribute to your HSA, you must not enroll in Medicare. There is a distinction between being eligible for Medicare, and being enrolled. You become enrolled by filing an application, or being approved automatically (dependent on your state's rules), or if you have begun receiving Social Security benefits would also automatically enroll you in Part A. If you are not enrolled in Medicare and are otherwise eligible to contribute to an HSA (by being enrolled in a qualifying health plan), you can continue to contribute to your HSA after age 65.



HealthEquity[®]
Building Health Savings[™]

15 West Scenic Pointe Drive, Suite 100
Draper, Utah 84020

©2015 HealthEquity All rights reserved.

As you approach Medicare eligibility at age 65, we want you to be aware of some important rules regarding Medicare and your health savings account (HSA). Turning 65 often means automatic eligibility and sometimes automatic enrollment in Medicare. There is a difference between Medicare eligibility and Medicare enrollment, as explained below. Medicare enrollment may disrupt your eligibility to contribute to your HSA.

Medicare eligibility

You have met the requirements to qualify for Medicare Part A (hospital insurance), but may not have applied yet. You can be Medicare eligible and still contribute to your HSA beyond age 65, as long as you have postponed applying for Social Security payments and Medicare benefits. There is no penalty for delaying your Medicare enrollment, but you should know that some states automatically enroll you in Medicare at age 65 even if you aren't yet receiving Social Security retirement payments. Double check your state's rules and determine what your Medicare eligibility/enrollment status will be at age 65.

Medicare enrollment

Once you are enrolled in any part of Medicare, you will not be eligible to contribute to an HSA in the months following your Medicare effective date. A pro-rated contribution must be determined for the year in which Medicare becomes effective (see responses to FAQs for more details).

Anyone receiving Social Security payments prior to age 65 are automatically enrolled in Medicare when they turn 65 and would not be able to contribute to an HSA. You can always spend from your HSA for qualified medical expenses and, at age 65, you can also take penalty-free* distributions from your HSA for reasons other than medical expenses.

FAQs

How do I find out which states automatically enroll in Medicare Part A upon reaching age 65?

Visit: <http://www.medicare.gov/> or call 1.800.MEDICARE (1.800.633.4227).

Can I stop Medicare enrollment and reclaim HSA eligibility?

Yes. If you were enrolled in Medicare Part A—either automatically or otherwise—but would rather decline it to stay HSA eligible, you should contact the Social Security Administration. As long as you have not already received Social Security checks, you may reestablish your eligibility for contributing to a health savings account. If you received Social Security benefits, you can only opt out of Medicare Part A if you pay the government back all the money you received from Social Security payments. You may have used your Medicare benefit which you would also have to pay back in order to reestablish HSA eligibility**.

Can I use HSA funds to pay for Medicare premiums?

HSA funds can be spent on eligible medical expenses for you, your spouse and your tax dependents. If you, as the account holder, are over 65 and the money is withdrawn for purchases other than medical expenses, it is subject to income tax, but no IRS penalties apply because you are over 65. Premiums for Medicare Part A or B, Medicare HMO and the employee share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance can be paid from an HSA. Premiums for Medigap policies are not qualified medical expenses.

*The distributions will still be subject to income taxes.

**This is HealthEquity's understanding for how Medicare works as of this printing. If you have questions, contact your Social Security Office for exact and updated information.

MEDICARE ELIGIBILITY and YOUR HSA

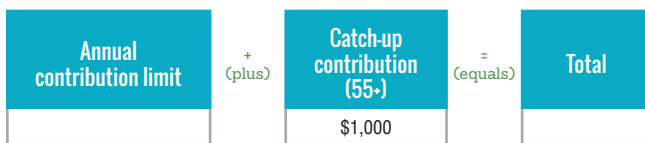
FAQs (continued...)

If I become Medicare enrolled, how do I determine my pro-rated contribution?

When you become Medicare enrolled you will need to pro-rate your contributions to include only the months you are eligible to contribute to avoid tax penalties.

Use the formula below to find your pro-rated contribution amount:

$$\left(\frac{\text{Annual contribution limit} + \text{Catch-up contribution (55+)}}{12 \text{ months}} \right) \left(\frac{\text{No. of mos. before Medicare effective date}}{12} \right) = \text{Prorated contribution}$$



I am turning 65 and will be enrolled in Medicare at that time. How much can I contribute to my HSA for the year?

Once you are enrolled in Medicare, you must pro-rate any HSA contributions for the year the Medicare coverage begins. Coverage begins on the first of the month in which you turn 65 (except if your birthday is on the first, then Medicare coverage begins on the first day of the month prior to your birthday).

NOTE: You can make an HSA contribution after you turn 65 and enroll in Medicare if you did not max out your contribution for your last full year of HSA eligibility. You have until April 15 of the year following the tax year you lose HSA eligibility to make HSA contributions and 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.

Do pro-rated HSA contributions need to be made prior to my 65th birthday if Medicare will be effective as of that month?

No, contributions can be made any time up until your tax filing deadline (April 15th).

EXAMPLES



Bill turns 65 on August 27 and enrolls in Medicare. He is no longer eligible to contribute to his HSA as of August 1. His maximum contribution for the year would be 7/12 (he was eligible seven twelfths of the year) times the applicable federal limit. He may include the catch-up amount of \$1,000 since he's over the age of 55.



Rachel turns 65 on April 1 and enrolls in Medicare. She is not eligible to contribute to her HSA beginning March 1. Her maximum contribution for the year would be 2/12 (two twelfths of the year). She may include the catch-up amount of \$1,000.

How do I cancel my HSA contributions when I become enrolled in Medicare?

If you choose to enroll in Medicare, you will need to cancel all contributions to your HSA.

I am married and covered by a family HSA qualified health plan with an HSA. My spouse is enrolled in Medicare and also covered under the HSA qualified health plan. Can I still contribute to my HSA?

Yes, being eligible to contribute to your HSA is determined by the status of the HSA owner and not the status of your spouse or tax dependents. Your spouse can be on Medicare without disqualifying you from contributing to your HSA, and your spouse can continue to be covered by the HSA qualified plan, as well as use HSA funds to cover their qualified medical expenses. Note: Your spouse cannot contribute to an HSA and the family maximum contribution cannot be split with your spouse.

I am enrolled (or want to enroll) in Medicare, but I still have money in my HSA. What happens to these funds?

HSA funds can continue to be spent on a tax-free basis for eligible medical expenses for you, your spouse and your tax dependents. For example, you can reimburse yourself for the Medicare premiums. If you, as the account holder, are over 65 and the money is drawn for other than medical expenses, it is subject to income tax, but no other IRS penalties apply because you are over 65.

We understand the significance of your benefits selection. Our expert friends are available every hour of every day to answer any additional questions you have.

Nothing in this communication is intended as legal, tax, financial, medical or marital advice. Always consult a professional when making life changing decisions.