

HSAs and Medicare

The following are some questions and answers dealing with the interaction between Medicare and health savings accounts (“HSAs”).

Q 1: ARE INDIVIDUALS ELIGIBLE FOR MEDICARE ABLE TO MAKE HSA CONTRIBUTIONS?

A 1: Yes, unless they are actually signed up for Medicare.

An “eligible individual” can establish and contribute to an HSA. An eligible individual is, with respect to any month, any individual who: (1) is covered under a high-deductible health plan (“HDHP”) on the first day of such month; (2) is not also covered by any other health plan that is not an HDHP (with certain exceptions for plans providing certain limited types of coverage); (3) is not enrolled in Medicare (mere eligibility is disregarded); and (4) may not be claimed as a dependent on another person's tax return (not including the spouse).

A Medicare-eligible individual who is not actually enrolled in Medicare Part A, Part B, Part D, or any other Medicare benefit may contribute to an HSA until the month that he or she is enrolled in Medicare.

For age-based Medicare, if the individual already receives Social Security benefits, he is automatically enrolled in Medicare Parts A and B, effective the first day of the month he is age 65. However, if he is not receiving Social Security benefits, he must take the affirmative step of applying for Medicare.¹ Therefore, someone age 65 is not necessarily enrolled in Medicare.

However, note that if Medicare Part A is delayed, the individual should stop HSA contributions at least 6 months prior to filing for Medicare benefits as Part A may be retroactive and begin 6 months prior to the month the individual actually applied for the benefits.

A participant can delay Part A coverage when it is not automatic; he can waive Part B when it is automatic or delay Part B coverage when it is not.

An individual must sign up for Parts C and D.

Q 2: DOES MEDICARE ELIGIBILITY OR ENROLLMENT AFFECT HDHP COVERAGE?

A 2: Employers subject to the Medicare as Secondary Payer Rule cannot encourage or force participants to drop group health coverage in favor of Medicare or make Medicare-eligible individuals ineligible under the group health plan. Therefore, someone enrolled in Medicare can still participate in a group health plan, including an HDHP.

An individual on Medicare may drop group health plan coverage voluntarily, if the employer allows; if an employee, spouse, or dependent who is enrolled in an accident or health plan of the employer becomes entitled to coverage (i.e., becomes enrolled) under Part A or Part B of Medicare, a cafeteria plan may permit the employee to make a prospective election change to cancel or reduce coverage of that employee, spouse, or dependent under the accident or health plan.

Generally, when a participant is covered under both a group health plan and Medicare, Medicare will be a secondary payer unless the participant is covered as a retiree.

¹ Note that when there is a delay Social Security benefits, once the participant applies for Medicare Part A, benefits are effective retroactively 6 months.

Q 3: HOW ARE HSA CONTRIBUTION LIMITS CALCULATED WHEN AN INDIVIDUAL ENROLLS IN MEDICARE MID-YEAR?

A 3: The annual contribution limit depends on the number of full months the person is an eligible individual.

Example. For 2025, the maximum annual contribution is \$4,300 for self-only coverage. Jerry enrolls in Medicare, effective July 1, 2025. His maximum contribution is \$2,150 ($\$4,300 \times 6/12$ months). In addition, Jerry can make a catch-up contribution of \$500 ($\$1,000 \times 6/12$).

Q 4: WHAT ARE THE SPECIAL RULES FOR MARRIED COUPLES?

A 4: Code § 223 contains a special rule for married individuals which provides that if either spouse has family coverage, then both spouses are treated as having only that family coverage. The HSA contribution limit is a joint limit, which is to be divided equally between the married couple if both are HSA-eligible unless they agree on a different division. So, if either spouse is HSA-eligible and has family HDHP coverage, the spouses' combined contribution limit is the annual statutory maximum amount for individuals with family HDHP coverage, (\$8,300 for 2024, \$8,550 for 2025).

Each spouse who is an eligible individual and wants to make contributions to an HSA must open a separate HSA. Thus, only one person may be the account beneficiary of an HSA.

When One Spouse Is Not HSA-Eligible – Full Year

If only one spouse is enrolled in Medicare (i.e., one spouse is HSA-eligible and the other is not), the contribution limit of the HSA-eligible spouse is calculated based on whether the eligible individual has self-only or family coverage. The HSA-eligible spouse can contribute the full amount – no allocation is made to the ineligible spouse.

Example 1. Velma and Wilber are a married couple with family HDHP coverage. Velma is an eligible individual. Wilber also has coverage under Medicare so is not an eligible individual. Velma may contribute \$8,550 to an HSA for 2025 while Wilbur may not contribute to an HSA.

Example 2. In 2025, Maureen and Steve are married and have a child. Maureen has family HDHP coverage with a \$5,000 deductible that covers Maureen and one of the children. Maureen otherwise meets the requirements of being an eligible individual for HSA purposes. Steve is enrolled in Medicare. Maureen may contribute up to \$8,550 to her HSA. Steve is not eligible to make an HSA contribution.

When One Spouse Is Not HSA-Eligible – Partial Year

The annual contribution limit depends on the number of full months the person is an eligible individual.

Example. Larry and Beatrice are a married couple with family HDHP coverage and are both HSA-eligible. Beatrice signs up for Medicare, effective August 1, 2025. Beatrice can only contribute up to \$4,987.50 ($\$8,550 \times 7/12$). If Larry has an HSA, he can contribute the remainder (\$3,458.33) or he could, for example, contribute the full amount (\$8,550) if Beatrice contributed \$0.

Catch-Up Contributions

A married couple may also make two HSA catch-up contributions, so long as both spouses are at least age 55, but in order for a married couple to make two HSA catch-up contributions (\$2,000 total), a separate HSA must be established in the name of each spouse. The annual contribution limit depends on the number of full months the person is an eligible individual.

Example. Daisy and Barney are married. Daisy signs up for Medicare effective August 1, 2025. She can only contribute \$583.33 ($\$1,000 \times 7/12$). If Barney is on Medicare for the full year, he could contribute \$0. If Barney is not on Medicare for the full year, he could contribute \$1,000.

Example 2. Samantha is covered by an HDHP for nine months of 2025 (9/12ths of a year), with no disqualifying coverage, before enrolling in Medicare after turning age 65.

She is allowed an HSA contribution of either \$6,412.50 if enrolled in family coverage ($\$8,550 \times 9/12$), or \$3,225 if enrolled in self-only coverage ($\$4,300 \times 9/12$). In addition, she would be allowed a catch-up contribution of \$750 ($\$1,000 \times 9/12$) into her HSA.²

Q 5: HOW DOES MEDICARE ENROLLMENT AFFECT DISTRIBUTIONS?

A 5: An account beneficiary can continue to receive distributions from his HSA when he is no longer an eligible individual (e.g., is enrolled in Medicare). However, contributions can no longer go into his HSA.

An HSA is a trust or custodial account established exclusively to pay for qualified medical expenses³ of the account beneficiary, his spouse, and/or his tax dependents.

Qualified expenses include premiums in the case of an account beneficiary who has attained the age 65 for any health insurance (e.g., premiums for Medicare Part A, B, or D, Medicare HMO, and the employee's share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance), but not for a Medicare supplemental policy.

Q 6: WHAT IS THE TAX TREATMENT OF INTEREST AND DISTRIBUTIONS?

A 6: HSA earnings accumulate tax-free and distributions to pay qualified medical expenses are also tax-free, even if the individual is not currently eligible to make contributions to the HSA at the time of distribution.

Distributions not used exclusively to pay for qualified medical expenses under IRC 213(d) are included in income and subject to a 20% tax. The 20% tax does not apply when an individual is age 65 (eligible for Medicare), is disabled, or has died during the year.

² Information Letter 2016-0014.

³ "Qualified medical expenses" are those described in Code Sec. 213(d) (See IRS Publication 502) including nonprescription drugs with a prescription paid for the account beneficiary, his spouse, and/or his dependent, even if the spouse or dependent is not an eligible individual as long as the expense isn't reimbursed elsewhere. Premiums cannot be reimbursed except for:

- COBRA premiums;
- qualified long-term care insurance coverage;
- premiums while the individual is receiving unemployment compensation; and
- premiums in the case of an account beneficiary who has attained the age 65 for any health insurance (e.g., premiums for Medicare Part A, B, or D, Medicare HMO, and the employee's share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance), but not for a Medicare supplemental policy.