



# Wespath

BENEFITS | INVESTMENTS

a general agency of The United Methodist Church

## Participants Nearing Medicare Eligibility—Age 65 or Medicare-Disabled Considerations for HSA Plans

Considering the following factors can help you select the HealthFlex plan that best fits your personal circumstances:

- Family size/covered individuals
- Health status/anticipated utilization
- Financial risk tolerance
- Financial preparedness (household budget and financial safety net)

In addition to these factors, **individuals approaching Medicare eligibility (i.e., nearing age 65 or due to disability) have special considerations related to HSA plans and health savings accounts (HSAs).** This is because once you apply for or are enrolled in Medicare, you will not be eligible for new HSA contributions that are included with the HealthFlex HSA\* plan designs, nor eligible to make your own HSA contributions. (However, you will still have access to any existing HSA balance you may already have, including using the HSA for Medicare premiums other than Medicare supplemental coverage.)

\* HealthFlex H1500 and H2000 with HSA include plan sponsor funding into an HSA, plus optional personal contributions; the HealthFlex H3000 with HSA does not include plan sponsor HSA funding unless there is excess premium credit, but permits optional personal contributions.



### HSA Contribution Ineligibility—HSA Plans May Not Be a Good Match

You are not eligible for any HSA contributions (including plan sponsor and personal contributions) if you fit any of these categories:

- Enrolled in Medicare, including any of the following:
  - Participating in the Medicare Secondary Payer Small Employer Exception (MSPSEE) program
  - Receiving Social Security retirement benefits, and you turn age 65 and are enrolled in Medicare automatically
  - Enrolled in only Medicare Part A
  - Enrolled in Medicare due to disability
- Enrolled in Tricare



### Are You or Your Spouse Turning 65 Any Time in the Next Year?

If you or your spouse become eligible for Medicare mid-year, you are subject to additional rules. For example, you may be eligible to contribute a reduced amount to an HSA (prorated based on the amount of time you were not in Medicare). Also, the amount of contributions you make to your HSA depends on whether your HSA plan coverage is for self-only or family coverage. In many cases, if you have elected family coverage, you may not wish to change this election when your spouse turns 65, even if he or she becomes covered by Medicare. If you continue to maintain family coverage, then you may contribute to your HSA up to the family limit.

The *examples on the following pages* may help you understand further.

This document provides general guidelines. If you (or your covered spouse) are close to age 65 (Medicare eligibility age) or may soon become Medicare-eligible due to disability, please consult a tax adviser for more information about how an HSA Plan may affect your personal circumstances. Additional information about HSA plans is available through the Benefits Access website.

**Note:** Federal annual limits for total HSA contributions include plan sponsor plus optional participant contributions. The maximum HSA contribution (plan sponsor + optional personal contribution) for 2023 is **\$7,750** for a family plan (**\$3,850** for single coverage) plus **\$1,000** in catch-up contributions for a primary participant who is age 55 or older. Mid-year enrollment in Medicare may lower these limits by a prorated amount.

## Prorated Contributions Scenarios

<b>Scenario 1: Primary participant turning 65 in June but still working</b>	
<p>As long as you are not accepting Social Security benefits on or after you turn age 65 when you are automatically enrolled in Medicare, you can delay enrollment in Medicare Part A and continue to contribute to an HSA (and/or accept your plan sponsor’s HSA contributions) up to IRS limits. You can postpone applying for Social Security and Medicare until you stop working without penalty as long as you are covered by an appropriate group health plan** that does not require Medicare enrollment.</p>	
<p><b>If you have signed up for Medicare Part A and not yet applied for Social Security benefits</b></p>	<p>You can withdraw your application as long as you are actively working and covered by an appropriate group health plan** that does not require Medicare enrollment. There is no penalty, and you can apply for Social Security later. If you do this, you can continue contributing to an HSA and accept your plan sponsor’s HSA contributions.</p>
<p><b>If you have applied for or are receiving Social Security benefits, when you turn age 65—this automatically entitles you to Medicare Part A</b></p>	<p>You are entitled to Medicare Part A. In this case, you cannot continue to contribute to an HSA—the prorated limit would apply as described below:</p> <ul style="list-style-type: none"> <li>• Assuming the participant had single (self-only) coverage under HealthFlex, the participant would be eligible for <b>5/12 of the \$3,850</b> for single coverage (<b>\$1,604.15 for January – May</b>) plus <b>5/12 of the \$1,000</b> catch-up contribution (<b>\$416.67</b>).</li> <li>• The total annual contribution limit for this participant would be <b>\$2,020.82</b> (<b>\$1,604.15 + \$416.67</b>).</li> </ul> <p><i><b>Note:</b> You may choose to drop Medicare Part A if you have been receiving Social Security benefits for fewer than 12 months—as long as you can pay back the Social Security benefits, including any amount Medicare has paid toward medical claims. If you drop Medicare Part A, then you would be able to contribute the full amount under the HSA limit.</i></p>

\*\* An appropriate group health plan would be one that provides “creditable” prescription drug coverage. To avoid penalties for late enrollment in Medicare Part B or Part D (and assuming Medicare Part A is no cost), you must be covered by an employer-sponsored group health plan providing “creditable coverage.” HealthFlex is such a plan.

## Scenario 2: Spouse turning 65 within the plan year (June); primary participant remains under 65 and changes from family coverage to self-only coverage

Once the spouse enrolls in Medicare (June), if the participant switches to self-only coverage, the family HSA contribution limit will be prorated for the number of months the spouse was enrolled in an HSA-qualified plan before enrolling in Medicare. (If the participant keeps family coverage instead of switching to self-only coverage, the family limit continues to apply for HSA contributions.)

**Note:** Medicare enrollment is typically effective on the first day of the month one turns age 65 (if your birthday is the first day of the month, however, your enrollment begins on the first day of the prior month), unless you delay enrollment.

<p><b>If the spouse enrolls in Medicare in June</b></p>	<p>HSA contributions will be prorated for January-May HealthFlex coverage (i.e., the period prior to Medicare enrollment):</p> <ul style="list-style-type: none"> <li>• The primary participant is eligible for <b>5/12 of the \$7,750</b> HSA contribution limit for family coverage (<b>\$3,229.15</b>).</li> <li>• The primary participant then switches to single (self-only) coverage (assuming there are no dependent children in the HealthFlex plan) for the rest of the year and is eligible to contribute <b>7/12 (June – December) of the \$3,850</b> HSA limit for single coverage (<b>\$2,245.81</b> plus the full <b>\$1,000 catch-up contribution</b> if over 55) since the primary participant was enrolled in the HSA plan all year).</li> <li>• The total annual contribution limit for this participant/family would be <b>\$6,474.96</b> (<b>\$3,229.15 + \$2,245.81 + \$1,000</b>).</li> <li>• If the primary participant covers HSA-eligible dependent children, he or she may still be eligible for the full family contribution (<b>\$7,750</b> plus a single <b>\$1,000 catch-up contribution</b> if over age 55).</li> </ul> <p>See the <a href="#">IRS Instructions for Form 8889</a> for a worksheet to help you calculate your contribution limit (available at <a href="https://www.irs.gov">irs.gov</a>).</p> <p>Accumulated HSA funds can be used by the spouse for Medicare Part B, Medicare Part D and Medicare Advantage Premiums, but not for Medicare Supplement or Medigap premiums. Accumulated HSA funds also can continue to be used by both spouses for co-payments, co-insurance and deductibles for medical, pharmacy, behavioral health, vision and dental expenses.</p>
<p><b>If the spouse delays enrollment in Medicare</b></p>	<p>The family may still be eligible for the full family contribution in some cases, even if dependent children are not covered. Your spouse can postpone applying for Social Security and Medicare without penalty—as long as he or she is covered by an appropriate group health plan** that does not require Medicare enrollment and you remain actively working.</p> <p><b>** An appropriate group health plan would be one that provides “creditable” prescription drug coverage. To avoid penalties for late enrollment in Medicare Part B or Part D (and assuming Medicare Part A is no cost), you must be covered by an employer-sponsored group health plan providing “creditable coverage.” HealthFlex is such a plan.</b></p>

### Scenario 3: Participant Becomes Medicare Eligible in June due to disability

Typically, someone becomes Medicare-eligible after 24 months of receiving Social Security disability benefits.

#### If you remain in HealthFlex

You are required to sign up for Medicare Parts A and B to get the full benefit of your HealthFlex Plan. You would therefore be *ineligible* to contribute to an HSA or accept your plan sponsor's HSA contributions in the months you have Medicare. The prorated limit would apply as described below:

- Assuming the participant had single (self-only) coverage under HealthFlex, the participant would be eligible for **5/12 of the \$3,850** for single coverage (**\$1,604.15**) plus **5/12 of the \$1,000 catch-up contribution** if over 55 (**\$416.67**).
- The total annual contribution limit for this participant would be **\$2,020.82** (**\$1,604.15 + \$416.67**) if over 55, or **\$1,604.15** if not over 55.

### Scenario 4: Retired, taking Medicare, and then re-hired

If you were previously receiving Medicare benefits due to age 65 and retirement and later began working again and therefore eligible for your group employer plan, you would *not be eligible* to contribute to an HSA or receive plan sponsor HSA funding since you would already have Medicare Part A benefits.

Choosing an HSA plan when you are about to become Medicare eligible may still be a good choice for you if you make sure you comply with the rules about proration. You also should note that if you become retroactively approved for Medicare for any reason, you may need to return some of your contributions. Finally, individuals who work more than six months past their retirement age may want to stop HSA contributions six months before applying for Social Security and Medicare, as these can be retroactive for six months.

**DISCLAIMER:** This document is provided as a general informational and educational service to HealthFlex participants. The document does not constitute legal, tax or consumer advice. Readers may want to consult with a tax adviser, legal counsel or other professional adviser before acting on any information in this document. Wespath Benefits and Investments (Wespath) expressly disclaims any liability in respect to actions taken or not taken based on the contents of this document. Readers may also want to review additional documents provided by HealthFlex for more information about HSA plans.