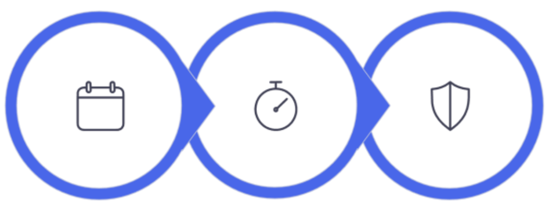
Medicare Pitfalls: Medicare and Health Savings Accounts Don’t Mix- How to Prepare for Medicare Enrollment Without Tax Penalties

WEBINAR HANDOUT

- **Pitfall Summary**
  - Health Savings Account [HSA] requires a high-deductible health plan [HDHP] when making contributions
  - Medicare is **not** a high-deductible health plan ([HDHP]
  - HSA contributions are not permitted when enrolled in any part of Medicare
  - When starting SS benefit, SSA automatically enrolls those over age 65 in Medicare Part A effective 6 months (or back to age 65, whichever timeframe is shorter) prior to **application submission date (not requested benefit start date)----**same applies if enrolling just in Medicare or for Railroad Retirement benefits
  - HSA contributions must stop prior to the look back period to avoid tax penalty----applies to self and employer contributions
  - Tax penalty is income tax and 6% cumulative excise tax on excess HSA contributions----penalty compounds annually until excess contributions removed from account
  - Annual HSA contributions are treated as monthly contributions (total payment made in January is considered as a contribution for each month of the year—so last contribution on record is December of that year)

- **Pitfall Prevention**
  - Enrolling to start at age 65
    - stop contributions the month before turning 65---(recommend 2 months before to create a buffer against late deposits)
    - for those born on the first of the month---stop contributions 2 months before turning 65 (if your birthday is May 1, SSA and Medicare consider April as the month you turn 65)
  - Enrolling to start after age 65
    - stop contributions 6 months before the month you'll be submitting your application
    - (7 months if born on the first of the month----recommended as a safety buffer for others)



Set Target Date **Subtract 6 Months** **Subtract 1 Month**

- **Pitfall Solutions**
  - Employer payroll adjustments
  - Delay SS benefit application
    - apply 6 months after contributions stop
    - option—claim higher benefit amount or accumulate delayed retirement credits [DRCs]
    - option—request 6 month look back for benefit start date (if beyond full retirement age); associate reductions apply

  - Withdraw excess contributions and associated earnings before federal tax filing date
    - consult tax advisor first
- **Checklist**
  - Do I have credible employer health plan coverage?
  - Do I plan to remain on my employer health plan?
    - may be able to delay Part B and Part D
    - Part S rules apply- remember to consider HSA interaction
  - Am I or my employer contributing to an HSA?
    - contributions stop 6 months before submitting application for benefits
    - my application does not affect my spouse if they have an HSA
  - Am I already passed the Part A retroactive timeframe?
    - if passed age 65, determine number of months Part A backdates and excess contributions
    - discuss solutions with tax advisor