The Effect of Applying for Social Security & Medicare with a Health Savings Account

A practical guide for near-retirees and their financial advisors – understanding the rules, the risks, and how to protect your HSA savings as you transition to Medicare.

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The Health Savings Account Trap

A Health Savings Account (HSA) is one of the most powerful tax-advantaged tools available for retirement savings. But there is a critical pitfall that catches thousands of Americans every year.

The Core Problem

Medicare is **not** considered a High-Deductible Health Plan (HDHP). Once you are enrolled in Medicare – even retroactively – you can no longer make contributions to your HSA.

The 6-Month Lookback Rule

When you apply for Medicare after age 65, Part A coverage is **backdated up to six months.** This retroactive enrollment silently disqualifies prior HSA contributions.

The #1 Unexpected Tax Penalty

This Medicare/HSA coordination failure is the **most common unexpected tax penalty** for Americans approaching Medicare age – and it is entirely avoidable with the right planning.

Health Savings Accounts: The Six-Month Lookback Rule

Understanding exactly how the lookback rule works is the first step to avoiding costly penalties.

How It Triggers

When you apply for Medicare **after age 65**, your Medicare Part A coverage is automatically backdated by up to **six months** from your application date – regardless of when you want your benefits to start.

What Gets Disqualified

That retroactive coverage **retroactively disqualifies** your HSA eligibility for those same months. You were legally contributing – but now those contributions become "excess" in the eyes of the IRS.

The Tax Consequence

Excess HSA contributions are subject to **ordinary income tax plus a 6% cumulative excise tax** – and that penalty repeats every year until the excess is fully removed from the account.

This rule applies whether you apply for Social Security, Medicare directly, or Railroad Retirement benefits. Any benefit application that triggers Part A enrollment starts the clock.

Key Takeaways: The Four Rules You Must Know

1

The Rule

Medicare Part A coverage is **mandatory and retroactive** for up to 6 months when you enroll after age 65. You cannot opt out of this backdating.

2

The Consequence

You **cannot contribute to an HSA** for any month in which you have Medicare coverage – including retroactively applied coverage. Even a single day of coverage in a month disqualifies the entire month.

3

The Penalty

Contributions made during the lookback period are classified as "excess." They are subject to **income tax plus a 6% cumulative excise tax** that compounds annually until removed.

4

The Fix

Stop **all HSA contributions** – including your employer's contributions – at least **6 months before** you apply for Medicare or Social Security. Adding a one-month safety buffer is strongly recommended.

Key Detail Most People Aren't Aware Of: Enrollment Date & Application Date

The Critical Moment

The month you **apply for any benefits**, you immediately lose your status as an HSA-eligible individual for that entire month – regardless of what day of the month you apply.

Combined with the 6-month retroactive rule, this means your exposure window can extend all the way back to the January of the application year.

Real-World Example

You apply for benefits in **July** at age 68. Medicare Part A is backdated to **January**. Your HSA contributions for **January through July** – seven months – become excess contributions, each subject to income tax and the 6% excise tax.

1. **Jan - June**

   Retroactive coverage – contributions become excess

2. **July**

   Application month – immediately ineligible

3. **Aug - Dec**

   No HSA contributions allowed

The 6% Excise Tax: It Keeps Compounding Until Removed

The IRS 6% excise tax on excess HSA contributions is **cumulative** – it applies every single tax year that the excess remains in your account. This is not a one-time penalty.

Each Year It Lingers, You Pay Again

If you do not withdraw the excess contributions before your tax filing deadline, the 6% excise tax will be assessed again on the remaining excess – year after year – until fully resolved.

Act Before the Tax Deadline to Avoid That Year's Penalty

If you withdraw the excess contributions – plus any earnings – before your federal tax filing deadline (including extensions), you can avoid the excise tax for that particular tax year.

Consult a Tax Advisor

As Social Security Advisors, we do not provide tax advice. We strongly encourage you to consult with a qualified tax advisor to fully understand the tax consequences of excess HSA contributions on your personal situation.

Options When Someone Finds Themselves in This Position

If you are already in or approaching this situation, there are still strategies available. Understanding your contribution limits and your spouse's situation is essential.

2026 HSA Contribution Limits

$4,400

Self-only HDHP coverage

$8,750

Family HDHP coverage

+$1,000

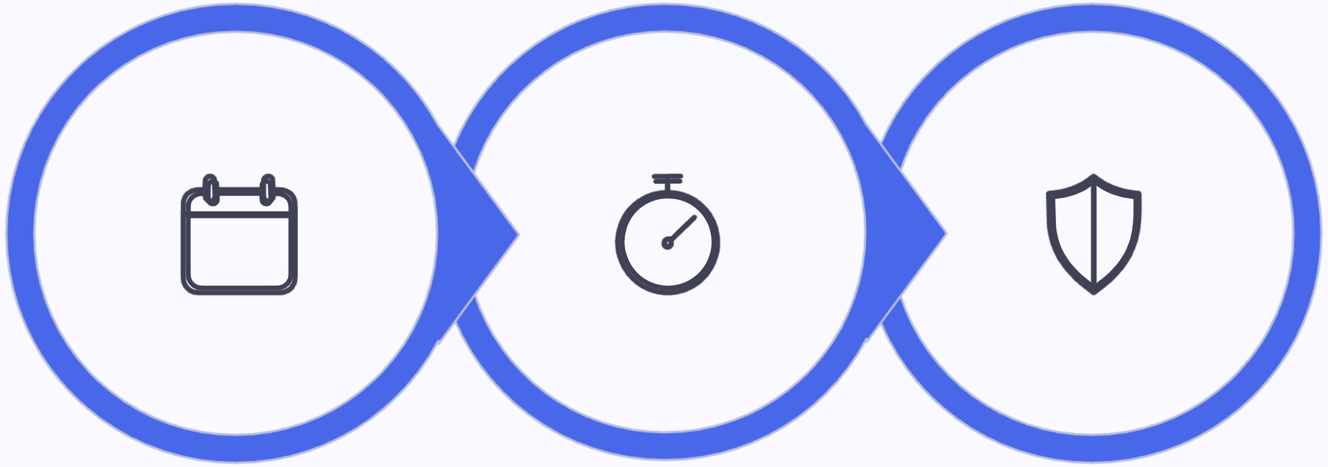
Age 55+ catch-up (each eligible spouse)

Spouse Scenarios to Know

- **Married couples:** The spouse who is *not* contributing to the HSA can apply for benefits at any time without triggering excess contribution issues for the contributing spouse.
- **Can I contribute if my spouse takes Social Security?** Yes – if you are not on Medicare and remain enrolled in an HDHP, your own eligibility is unaffected.
- **Which limit applies?** The family contribution limit applies only if you have family HDHP coverage in place.

The Formula: How to Calculate Your Last Safe Contribution Month

Use this simple three-step formula to protect your HSA contributions and avoid triggering the excise tax. The key is working *backward* from your intended retirement date.



Set Target Date

Subtract 6 Months

Subtract 1 Month

Pro-Rata Rule: HSA contribution limits are calculated on a monthly pro-rata basis. If you are covered by Medicare for even *one day* in a given month, you are ineligible to contribute for that *entire calendar month*. When in doubt, stop one month earlier than you think necessary.

Important Distinction: Medicare Part A vs. Parts B & D

Part B & D: You May Be Able to Delay

Many individuals who continue working past 65 can **delay enrolling in Medicare Part B and Part D** without penalty – provided they maintain creditable employer health insurance coverage through a Group Health Plan (GHP).

This is a common and perfectly legal strategy that allows continued HSA contributions while still employed.

Part A: Automatic and Retroactive – No Exceptions

Here is the critical distinction: **Medicare Part A enrollment is automatically triggered** the moment you apply for *any* federal benefits – Social Security, Railroad Retirement, etc. You cannot delay it, waive it, or stop the retroactive months from applying.

Being fully aware of these rules is one of the most important – and most overlooked – elements of comprehensive retirement planning.

Getting Ready to Retire? Walk Through This Checklist

Use this decision flow when advising clients who are approaching retirement, or when you are planning your own transition to Social Security or Medicare.

01

Do You Have Creditable Employer Coverage?

Confirm whether you are currently enrolled in a qualifying Group Health Plan (GHP) through active employment. If yes, proceed to the next question.

02

Do You Plan to Remain on That Coverage?

If you intend to stay on employer coverage, you may be able to delay Medicare Parts B and D. However, Part A rules still apply – do not overlook the HSA interaction.

03

Do You Have an HSA? Are You Still Contributing?

If you are contributing – whether through payroll or directly – you must stop contributions at least 6 months before any benefit application. If it is your *spouse's* HSA under their employer plan, your application does not affect their eligibility.

04

Identify the Retroactive Impact Window

If you are already past age 65, calculate how many months Medicare Part A will be backdated. Contributions in those months will become excess. Engage a tax advisor immediately to assess your exposure and remediation options.

Options for Avoiding Penalties

If circumstances require you to apply for benefits sooner than planned – whether due to job loss, health, or other reasons – there are still actionable options to minimize or eliminate penalties.

Request Employer Payroll Adjustments

Contact your payroll or HR department and ask them to **remove both your and your employer's HSA contributions** for the months that will be affected by Medicare Part A backdating. Note that employers are not required to accommodate this request, but many will work with employees nearing retirement.

Consider Delaying Your Application

If financially feasible, **delay applying for benefits** until you have stopped all HSA contributions for at least six months. This is the cleanest solution and eliminates the excess contribution problem entirely. Weigh this against any delayed retirement credits you may be accumulating.

Withdraw Excess Contributions Before the Tax Deadline

If excess contributions have already been made, **withdraw the excess plus any associated earnings before your federal tax filing deadline** (including extensions) to avoid the 6% excise tax for that tax year. Always consult a tax advisor before taking this step.

someone over the age of 65 who is no longer covered by GHP

Options for Avoiding Penalties: Using COBRA Coverage

COBRA is a valuable but often overlooked bridge strategy for retirees navigating the gap between employer coverage and Medicare enrollment.

COBRA as a Coverage Bridge

COBRA is available up to 18 months (36 in certain circumstances); however, you can use it to cover the Medicare Part A 6 months look back rule during your Medicare Special Enrollment Period (you have 8 months after someone over the age of 65 who is no longer covered by GHP to sign up for Medicare to avoid penalties)

Creditable Coverage & Part D

As long as your Group Health Plan (GHP) prescription drug coverage was considered **creditable coverage**, it will remain creditable under COBRA. This means you can delay Medicare Part D enrollment without facing a late enrollment penalty – provided COBRA drug coverage is at least as good as Medicare's standard Part D benefit.

Once COBRA ends, you have a **63-day Special Enrollment Period** to enroll in Medicare Part D or a Medicare Advantage (Part C) plan without penalty.

Key COBRA Reminders

- Request a **"Certificate of Creditable Coverage"** from your COBRA plan administrator to document your drug coverage status.
- You have **63 days after COBRA ends** to enroll in a Medicare Advantage (Part C) plan without a gap penalty.
- **Veterans:** Always ask if they are a veteran – veterans who use VA benefits for prescription drug coverage are *not* penalized for delaying Medicare Part D enrollment.

Decided to Delay? Here Are Your Options Going Forward

If you choose to delay applying for benefits by six months or more to protect your HSA contributions, you have meaningful options when you are ready to claim.

Option 1: Backdate Your Application Up to 6 Months

If you are beyond your **Full Retirement Age (FRA)**, you may choose to backdate your Social Security application by up to six months and receive a **lump-sum payment** for the months you delayed. This makes up for the time you waited, without a long-term reduction in benefits.

Option 2: Take the Delayed Retirement Credits

Alternatively, you may elect **not** to backdate and instead keep the **~4% per year increase in Delayed Retirement Credits**, resulting in a permanently higher monthly benefit for the remainder of your life – and potentially your spouse's.

Final Reminder: Always consult your tax advisor to determine the consequences of excess HSA contributions on your specific tax situation before making any final decisions about when to begin benefits. The 6% excise tax is applied *every year* until excess contributions are fully removed from the account.

THANK YOU

This concludes Part 1 of Medicare Pitfalls.

If you have any questions about the material covered, feel free to contact our Social Security Advisory Staff:

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See you next week for Part 2