CLIENT ALERT

Brought to you by:

HEALTH SAVINGS ACCOUNTS –
Know how Medicare interacts

Please pay careful attention to this Client Alert if you offer a medical plan(s) that are HSA compatible.

Employers that offer HSA compatible High Deductible Health plans often assist employees with the HSA Bank Account. Typical with this assistance is the warning that you cannot have Medicare and contribute to an HSA. While true, an often-missed piece of Medicare is the impact Medicare enrollment can have on an HSA when a person has delayed their Medicare enrollment beyond age 65.

RETROACTIVE COVERAGE INTO MEDICARE PART A

When a person delays their Medicare enrollment beyond their eligibility date at 65, they need to be aware that Part A coverage will begin retroactively to the lesser of six months prior to the month an individual applies for Medicare or to age 65, whichever is the lesser timeframe. For example, if someone is 67, and enrolls in Medicare on March 1st, they will be retroactively covered by Medicare Part A beginning on September 1st of the prior year. This clause can have its benefits, covering that person up to 6 months in the past, but there are drawbacks, especially when that person had/has an HSA. When a person enrolls in Medicare, they are no longer eligible to contribute to an HSA. Due to this retroactive enrollment in Medicare, an individual can face tax penalties for contributing to an HSA during those retroactive months. Individuals beyond age 65 should consider stopping their HSA contributions at least 6 months prior to when they plan to enroll in Medicare.

THE LAST MONTH RULE AND THE TESTING PERIOD

There are other tax penalties that can apply as well. If an employee takes advantage of the Last Month Rule, then they must remain an HSA eligible individual for the next 12 months, called The Testing Period. The Last Month Rule allows an employee that is covered by an HSA eligible health plan on the first day of the last month of the year to be considered HSA eligible for the entire year. This allows that employee to contribute the annual HSA maximum amount, maximizing their HSA tax benefits. In order to benefit from this, the employee must then remain HSA eligible for the next 12 months. Failure to remain HSA eligible will result in excess contributions based on the number of months the individual was not HSA eligible. As an example, if an employee begins HSA coverage in December 2020, per the Last Month Rule, they are considered an eligible employee for the entire 2020 year, allowing them to contribute up to the maximum annual contribution limit. In order to use the Last Month Rule, they must remain HSA eligible for their "testing period," which is the 12 months beginning December 2020. If they fail to remain an eligible individual (drop HDHP coverage, enroll in Medicare, etc) during that 12 month period, any "excess" contribution made as a result of using the Last Month Rule will be penalized and taxed.

HELP FROM CHB GROUP

We’ve put together an explanation page geared for distribution to your employees to explain what happens when someone has a Health Savings Account and is considering enrollment into Medicare. This explanation page is meant for informational purposes only and is not meant to be advice.

At CHB Group, we want to stress the importance of your employees having a plan when they are considering Medicare enrollment. We encourage you to send this to employees and suggest that you encourage those who open a Health Savings Account to speak with a qualified advisor regarding the HSA account as you cannot be responsible to ensure that employees understand all the ramifications behind the tax advantages and penalties of an HSA Account.

Disclaimer: This Client Alert is provided as general information and is not meant as advice. If you would like more information or a copy of the explanation page, please contact your CHB Group Account Manager.