

Navigating your retirement benefits

Medicare Part A, Social Security and health savings

More than 10,000 Americans turn 65 every day — 97% of whom enroll in Medicare. Many also contribute to Health Savings Accounts (HSAs), and without proper coordination of the two benefits, they could unknowingly violate IRS guidelines and risk paying fees and penalties. But with a little planning, you can avoid this.

Active vs. Eligible

Make sure you know the difference between being eligible for Medicare and having active Medicare coverage:

1. **Eligible:** You have the ability to enroll in Medicare.
2. **Active:** Your Medicare coverage has begun.

You can still contribute to your HSA if you're eligible for Medicare — contributions only need to stop after your Medicare coverage is active.

Important facts to remember

There are many different scenarios that can impact the date your coverage begins and when you need to stop contributing to your HSA.

1. **Once your Medicare coverage is active, you can't contribute to your HSA.**

   HSAs allow you and your employer to make tax-free contributions to a savings account used to pay certain healthcare expenses — but only if you're insured under a high-deductible health plan (HDHP).

   Because Medicare isn't considered an HDHP, once your Medicare coverage is active, you're no longer eligible to make HSA contributions — or you risk paying penalties to the IRS. It's important to know that when you enroll and when your Medicare coverage becomes active don't always align.

2. **If you delay retirement and want to continue making HSA contributions, don't enroll in Medicare or elect to begin receiving Social Security benefits.**

   If you plan to work beyond 65, you're not alone. More and more Americans work past age 65 — and many want to continue contributing to their HSA. Delaying Medicare and sticking with your HDHP may seem like an obvious solution — but not if Social Security benefits are a factor.

   Once you elect to receive Social Security retirement benefits, you're automatically enrolled in Medicare Part A and your coverage is considered active. Once that coverage begins, you can't continue HSA contributions.

3. **If you delay retirement, Medicare coverage is retroactive six months prior to enrolling.**

   If you decline Social Security retirement benefits and Medicare coverage to continue contributing to your HSA, when you do eventually enroll, your Medicare Part A coverage becomes effective and active for the preceding six months. To avoid violating IRS rules, stop contributing to your HSA at least six months before you enroll in Medicare.

Joe's story: A year away from Medicare eligibility

- Joe turns 65 in June of 2027, plans to retire at the end of that year, and enroll in Medicare.
- He's currently covered by his company's HDHP and he contributes to his HSA.
- He wants to save as much as he can this year for retirement, and plans to contribute the maximum individual allowable HSA contribution.
- Then in 2026 he could contribute an amount equal to 5/12ths (January-May) of the maximum amount.
- Joe will need to make sure that both his and his employer's contributions don't exceed this amount to avoid a 6% penalty on excess contributions.

Rose's story: Enrolling in Medicare once eligible

- Rose turns 65 in June and plans to retire at the end of the year.
- She's currently covered by her company's HDHP and she contributes to her HSA.
- Rose can continue to contribute to her HSA until her Medicare coverage becomes active. If Rose enrolls in Medicare in December, her effective date will be retroactive six months (June). This means Rose can contribute an amount equal to 5/12ths of the maximum allowable amount (January-May).
- Rose will need to make sure that both her and her employer's contributions don't exceed this amount to avoid a 6% penalty on excess contributions.

Barry's story: Delaying Medicare enrollment to keep working

- Barry turns 65 in June but wants to work another two years.
- He wants to continue his employer's HDHP and contribute the family maximum to his HSA.
- To accomplish this, Barry delays Medicare and, to avoid automatic enrollment and active coverage in Medicare Part A, postpones his Social Security retirement benefits.
- Fast forward two years: Barry is ready to retire at the end of the year.
- He enrolls in Medicare in December, but because he has delayed enrollment, his Medicare coverage is retroactively effective six months prior (June).
- This means Barry's maximum allowable HSA contribution would be 5/12ths (January-May) of the maximum amount for that year.
- Barry will need to make sure that both his and his employer's contributions don't exceed this amount to avoid a 6% penalty on excess contributions.

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