

HEALTH SAVINGS ACCOUNT (HSA) AND MEDICARE



FAQs

If an individual with an HSA-compatible health plan enrolls in Medicare, can they still contribute to their HSA?

Once an individual enrolls in Medicare, they are no longer eligible to contribute to an HSA and they must prorate the annual contribution limit (including the catch-up amount) based on the number of months that they were eligible during that year. For example, if an individual turns 65 and enrolls in Medicare as of July 1st, they would need to prorate the annual contribution limit (including the catch-up amount) by 6/12 since they were only eligible for 6 out of the 12 months during that calendar year. (Based on IRS Notice 2004-67)

Premium-free Part A coverage begins 6 months back from the date you apply for Medicare (or Social Security/RRB benefits), but no earlier than the first month you were eligible for Medicare. To avoid a tax penalty, you should stop contributing to your HSA at least 6 months before you apply for Medicare, if you apply after you have reached entitlement age.

Can an individual un-enroll in Medicare, in order to continue contributing to the HSA?

Yes. The account holder should seek the advice of the S.S. Administration to see what options are available in this situation.

The account holder should also check their health plan to see if there are any payment limitations imposed when a participant who is eligible for Medicare does not enroll.

If an individual who is enrolled in Medicare makes a distribution from an HSA to reimburse his/her Medicare premiums, is the reimbursement a qualified medical expense?

Yes. If an account holder has attained age 65, an HSA distribution to reimburse the Medicare beneficiary equal to the Medicare premium deduction is a qualified medical expense (Notice 2004-50, Q&A-45 & Notice 2008-59, Q&A-29). If the account holder has not attained age 65, Medicare premiums are generally not qualified medical expenses (Notice 2008-59, Q&A-30).

May an otherwise eligible individual who is eligible for Medicare, but not enrolled in Medicare Part A, Part B or Part D, contribute to an HSA?

Yes. Section 223(b)(7) states that an individual ceases to be an eligible individual starting with the month he or she is entitled to benefits under Medicare. Under this provision, mere eligibility for Medicare does not make an individual ineligible to contribute to an HSA. Rather, the term "Entitled to benefits under" Medicare means both eligibility and enrollment in Medicare. Thus, an otherwise eligible individual under section 223(c)(1) who is not actually enrolled in Medicare Part A, Part B or Part D may contribute to an HSA until the month that individual is enrolled in Medicare. (Notice 2004-50, Q&A-2 & Notice 2008-59, Q&A-5).

The account holder should also check their health plan to see if there are any payment limitations imposed when a participant who is eligible for Medicare does not enroll.

While enrolled in Medicare, are health insurance premiums qualified medical expenses?

For individuals over 65, premiums for Medicare Part A, Part B, Part D, Medicare HMA, and the employee's share of premiums for employer-sponsored health insurance, including premiums for employer-sponsored retiree health insurance can be paid from an HSA. Premiums for Medigap policies are not qualified medical expenses. (Notice 2004-2, Q&A-27)

If a spouse or dependent is covered by Medicare, can an HSA accountholder continue to contribute to the HSA bank account?

Yes. The eligibility requirements/limitations apply to the employee (the HSA accountholder), not their dependents. A spouse's Medicare eligibility has no impact on the employee's eligibility to contribute to an HSA and to use those HSA funds to reimburse eligible expenses for qualified dependents, including a Medicare eligible spouse.



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