Changes to your HSA When You Reach 65

When you turn 65, if you have a Health Savings Account (HSA), there are several important changes to be aware of regarding how you can utilize the account and the options available to you.

1 Age 65 General Distributions

At age 65, you can take penalty-free distributions from the HSA for any reason. However, in order to be both tax-free and penalty-free, the distribution must be for a qualified medical expense. Withdrawals made for other purposes will be subject to ordinary income taxes. Given that Medicare does not cover all of your medical expenses, most HSA owners continue to use their HSA funds for qualified medical expenses. This will ensure they get the maximum benefits from their HSA.

Example: James, age 66, wants to take money out of his HSA to pay for general retirement expenses (not qualified medical expenses). James will not have to pay the 20% penalty for non-eligible HSA withdrawals because he is over 65, but he will be subject to income taxes on the distribution. If instead James uses his HSA for a qualified medical expense, he can use the funds tax-free and penalty free.

2 Health Insurance Premiums

At age 65, you can use your HSA to pay for Medicare Parts A, B, D, and Medicare HMO premiums tax-free and penalty-free. You cannot use your HSA to pay for Medigap insurance premiums. You can also use your HSA to pay the employee share of premiums for employer-sponsored health care (employee-paid portions of employer-sponsored health care may already be pre-tax). Using HSA money is an especially good method to pay for Medicare with pre-tax dollars. If your Medicare premium is automatically deducted from your Social Security check, you simply reimburse yourself directly from your HSA for the Medicare premiums paid from your Social Security payment.

3 Continued Eligibility for an HSA

Most Americans become eligible for Medicare at age 65. Americans who begin receiving Social Security benefits prior to age 65 are automatically enrolled in Medicare at age 65. Participation in any type of Medicare (Part A, Part B, Part C - Medicare Advantage Plans, Part D, and Medicare Supplement Insurance - Medigap) makes you ineligible to contribute to an HSA. However, you can continue to use your HSA for qualified medical expenses and for other expenses for as long as you have funds in your HSA.

Loss of Eligibility in the Month You Turn 65. You lose eligibility as of the first day of the month you turn 65 and enroll in Medicare.

Example: Julie turns 65 on July 21 and enrolls in Medicare. She is no longer eligible to contribute to her HSA as of July 1. Her maximum contribution for that year would be 6/12 (she was eligible for the first 6 months of the year) times the applicable federal limit (remember to include the catch-up amount). ***See the back page for more details.***

Check Out Our Video On This Topic tinyurl.com/peb-hsa65

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Calculating Your HSA Contribution for the Year You Turn 65

Final Year's Contribution is Pro Rata. You can make an HSA contribution after you turn 65 and enroll in Medicare, if you have not maximized your contribution for your last year of HSA eligibility. You have until April 15 of the year following the tax year you lose HSA eligibility to make your HSA contribution. You can do so even if you are no longer eligible for an HSA, so long as you are making a contribution for a period when you were eligible.

Example: Brad was covered by a self-only HDHP and eligible for an HSA in 2024, but turned 65 on July 2, 2024, and enrolled in Medicare. Brad lost eligibility for an HSA as of July 1, 2024. For 2024, Brad was eligible for 6 months of the year. The federal HSA limit for Brad is $5,150 ($4,150 individual HSA limit plus a $1,000 catch-up). Accordingly, Brad's calculation is 6/12 X $5,150 = $2,575. Brad's maximum contribution for 2024 is $2,575. Brad has until April 15, 2025 to make this contribution.

Remaining HSA Eligible Past Age 65

To be able to contribute to an HSA after age 65, you must not enroll in Medicare. HSA rules make a distinction between being merely "eligible" for Medicare (keep HSA eligibility) and being "entitled" to or "enrolled" in Medicare (lose HSA eligibility). You become enrolled in Medicare under Part A by filing an application or being approved automatically. The Social Security Administration automatically "enrolls" you in Medicare Part A when you begin collecting Social Security benefits. Accordingly, if you are receiving Social Security payments and are over 65, you are almost certainly enrolled in Medicare Part A. Also, employees who work for smaller employers (fewer than 20 employees) will have Medicare as their primary insurance at age 65. Some people, however, avoid enrolling in Medicare and being automatically enrolled by waiting to receive Social Security. If you are not enrolled in Medicare and are otherwise HSA eligible, you can continue to contribute to an HSA after age 65. You are also allowed to contribute the $1,000 catch-up.

Stopping Medicare to Reclaim HSA Eligibility

If you signed up for Medicare Part A and now want to decline it, you can do so by contacting the Social Security Administration. Assuming you have not begun receiving Social Security checks this will reestablish your eligibility for an HSA. If you have applied for or have begun receiving Social Security, you cannot opt out of Medicare Part A without paying the government back all the money you received from Social Security payments plus paying the government back for any money Medicare spent on your medical claims. This action will also stop future Social Security payments (until you reapply and start this cycle over again).

Spouse Under Age 65

If your spouse is under age 65, that may provide an avenue for continued HSA contributions. An employer, however, cannot make HSA contributions into the HSA of an employee's spouse.

Example: John and Margaret are covered under a family HDHP provided through John's employer. John reaches age 65 in July and enrolls in Medicare. John's employer makes HSA contributions and allows John to make pre-tax deferrals as well. John's employer continues to provide family HDHP coverage for both John and Margaret. Margaret, age 58, can now open an HSA and contribute the family maximum (plus the catch-up as she is over age 55) because she remains covered by a family HDHP and is otherwise eligible. Margaret can use her HSA for John's medical expenses. Margaret cannot put her HSA contributions into John's HSA and will have to open her own HSA. John's employer will stop HSA employer contributions and cannot allow John to defer pay pre-tax into Margaret's HSA.

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