HSAs and Retirement

- If you are enrolled in Medicare or Medicaid, you cannot open an HSA.

- If you are Medicare eligible and are not enrolled in Medicare, you can open or contribute to an HSA if you have an HSA-qualified HDHP (please see Table B on next page).

- If you no longer have an HSA-qualified HDHP, you cannot contribute to your HSA, but you can maintain and spend the already deposited funds as stipulated by law.

- In the year you enroll in Medicare, you must pro-rate your "catch-up" contribution for the number of months you had HSA-qualified HDHP coverage, prior to the month your Medicare enrollment is effective.

- If a distribution from your HSA is used for purposes other than a qualified medical expense as defined in IRS Publication 502, then the amount withdrawn is subject to both income tax and a 10% penalty, unless the person who makes such a withdrawal from their HSA is over the age of 65. If 65 years old or older, the amount withdrawn for non-medical purposes is treated as retirement income, and is subject to normal income tax, but is not subject to the 10% penalty.

- Other qualified expenses from an HSA include out-of-pocket healthcare expenses while enrolled in Medicare (including Medicare premiums, deductibles, coinsurance and co-pays but not "Medigap"), employee share of health insurance premiums for employer-based coverage (for employees over age 65 only), premiums for COBRA continuation health insurance coverage from a former employer, premiums for qualified long-term care insurance coverage subject to the age limits in the Internal Revenue Code (please see Table C), and medical services provided in other countries.

- Why can't early retirees pay their HSA-qualified health insurance premium from their HSA? This change in the law was suggested but the objection is that given that there are millions in the individual market who have health insurance but receive no tax break for their purchase, why should insured early retirees get special treatment?

- Why can't seniors use their HSA to pay for Medigap coverage? The guiding principle of HSAs is for people to use their own money to meet a substantial deductible, thereby providing a financial incentive to spend the funds wisely and not to over consume. The main purpose of a Medigap policy is to insure the Medicare deductible.

- Allowing HSA funds to pay for Medigap insurance would be akin to allowing HSA funds to buy insurance to cover the HSA deductible. In other words, it would be using HSA funds to defeat the entire purpose of an HSA.

Table B

Allowable "Catch-Up" Contributions

Allowable HSA Investments	
Tax Year 2004	Up to $500.00
Tax Year 2005	Up to $600.00
Tax Year 2006	Up to $700.00
Tax Year 2007	Up to $800.00
Tax Year 2008	Up to $900.00
Tax Year 2009 and Beyond	Up to $1,000.00

- Each spouse age 55 or older can contribute up to the maximum "catch-up" amount. If you did not have HDHP coverage for the full year, you must pro-rate your "catch-up" contribution for the number of full months you were "eligible", i.e., had HDHP coverage. If you had HSA-qualified HDHP coverage for the entire year, you can deposit the entire "catch-up" amount starting with the year you turn 55, regardless of when you turn 55 during the year. If both spouses want to make "catch-up" contributions, each spouse must have a separate HSA.

- In the year you enroll in Medicare, you must prorate your "catch-up" contribution for the number of months you had HSA-qualified HDHP coverage, prior to the month your Medicare enrollment is effective. You can delay enrollment in Medicare Part A only if you delay taking Social Security. You can delay taking Social Security up until age 70 and one half years old.

- Once either spouse enrolls in Medicare, that spouse can no longer contribute any funds, including "catch-up" amounts, to their HSA. If you are not enrolled in Medicare, you can contribute to your HSA and continue to make "catch-up" contributions.