Health Savings Account Questions and Answers for Employees 65 and Older

The Affordable Care Act (ACA) has made high deductible health plans and health savings accounts (HSA) a more popular offering among U.S. employers in recent years. Employees who have utilized this type of health plan have watched employer contributions grow in their personal tax-free accounts. For older employees, especially those turning 65 having an HSA at this age means new benefits on one hand and a possible loss of eligibility on the other.

According to a recent Gallup survey more than 37 percent of workers plan to retire after age 65. As the age to collect full social security benefits increases, and cost of living expenses increase, older Americans want to be as prepared as possible when they retire and for many that means working past the age of 65.

But this adds a layer of complexity for them if they have an HSA. A November 2014 Benefits magazine article titled, *65th Birthday: Impact on HSAs* notes three key insights for employees with HSAs who are turning 65. First, Medicare coverage ends HSA eligibility. Second, HSA owners can use their HSA to pay for some health insurance premiums free of taxes and penalties. Lastly, they can take HSA distributions for any reason and not incur any penalty.

Here's a couple questions and answers under each of the above points that the article discusses.

Q. **How Does Medicare Coverage End HSA Eligibility?**

A. For an employee to have an HSA they must be enrolled in a high deductible health plan and not have other health coverage. Medicare is not a high deductible health plan and provides other health coverage.

Q. **Can An Employee Stay On His Or Her High Deductible Health Plan After Age 65?**

A. If an employee works for an employer with 20 or more employees he or she may delay Medicare enrollment to remain on the company's high deductible plan and remain HSA eligible. Medicare will serve as secondary coverage, which is allowed under HSA laws.

Q. **Does Social Security Impact HSA Eligibility?**

A. When an individual applies for Social Security, the Social Security Administration automatically enrolls the person in Medicare Part A when he or she turns 65. They therefore become ineligible for HSA contributions.

Q. **Can an employee, who is 65 or older pay for their health plan or Medicare premiums with an HSA?**

A. HSA owners, 65 or older, are allowed to pay for employer-sponsored health plan premiums or Medicare premiums from HSA funds with no taxes or penalties.

Q. **Does an HSA Provide For Retirement Distributions?**

A. Once an HSA owner reaches age 65 they may take money out and use it for general retirement expenditures without a 20% premature distribution penalty. However, the amount distributed is considered taxable income, just like a 401K or IRA.

Employee benefit specialists clearly have a great opportunity ahead as their workforce ages and remain employed to help educate employees about changing HSA guidelines as they turn 65. With a little planning, employees can make informed decisions about their HSAs that meet their lifestyle and health needs for the future.

Please Note: The information above was provided by our software partner Evolution1's Healthcare Trends Institute.