COMPLIANCE ALERT

Medicare Six-Month Lookback and HSA Contributions

EPIC Insurance Brokers & Consultants

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Quick Facts

- Baby boomers – aged 57 to 75 – expect to work until age 68.
- Enrollment in Medicare is automatic when someone elects Social Security benefits and is 65.
- 28% of Americans are enrolled in a Health Savings Account (HSA) with a qualified High Deductible Health Plan (HDHP).
- Employees over the age of 65 might have to reverse recent HSA contributions if they were not eligible to contribute.

Background

Employees are working longer, and the gap between the age for Medicare eligibility and the normal retirement age for Social Security is increasing. Beginning in 1983, the Department of Health and Human Services (HHS) started backdating Medicare coverage retroactively for six months to ensure that people coming off employer-sponsored health coverage would not inadvertently find themselves uninsured while transitioning to Medicare. Under current regulations, individuals who apply for Medicare Part A or Part B after reaching age 65 are automatically given six months of retroactive health coverage, which invalidates their ability to make or receive HSA contributions for any of those months they were deemed to be covered. This backdating causes confusion and frustration for those employees contributing to their HSA.

NOTE: Individuals do not have a choice to forego the automatic backdating, although this is being considered by the Centers for Medicare and Medicaid Services (CMS).

Delaying Medicare Enrollment

Individuals who have not yet applied for Social Security retirement benefits must affirmatively apply for Medicare Part A and/or Part B benefits to enroll in Medicare. Consequently, Medicare-eligible individuals may postpone their Medicare entitlement to continue making HSA contributions. CMS, the department that administers the Medicare Program, has confirmed that a Medicare-eligible individual seeking to continue HSA contributions should not apply for Medicare benefits or Social Security retirement benefits.

CMS states: “Premium-free Part A coverage begins [six] months back from the date you apply for Medicare (or Social Security/Railroad Retirement Board (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 [six] months before you apply for Medicare.”

Example (Enroll in Medicare after 65)

A current employee enrolled in HSA turns age 62 and does not apply for Social Security retirement benefits. When the employee turns age 65, does not enroll in Medicare and does not apply for Social Security benefits. Employee retires at age 68 and applies for Medicare and Social Security benefits at that time.

Employee's Part A Medicare entitlement is retroactively effective six months before they apply for Medicare benefits (age 67 ½), because they applied for Medicare and Social Security benefits more than six months after becoming initially eligible. Accordingly, the employee is not eligible to contribute to an HSA as of age 67 ½, even though they delayed Medicare enrollment until age 68, because that is the date their Medicare Part A benefits become effective.

Action Steps

Human Resources (HR) teams should get ahead of this problem by encouraging HSA holders over age 65 to plan to stop contributions six months before they enroll in Medicare, and to remind them that enrolling in Social Security, which some employees do while still working, automatically causes enrollment in Medicare Part A.

If employees make an overcontribution, they must reverse the overcontribution as well as the interest or earnings associated with those contributions by contacting their HSA administrator to avoid paying taxes and penalties on ineligible HSA contributions.

EPIC Employee Benefits Compliance Services

For further information on this or any other topics, please contact your EPIC benefits consulting team.