HSAs and Retirement

Learn about the rules surrounding Health Savings Accounts (HSAs) as you prepare for retirement

September 2019

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Health Savings Accounts (HSAs) offer many advantages when preparing for health care expenses in retirement.

- **HSAs offer triple tax savings.** The money you contribute is tax deductible, your savings grow tax free, and money used for qualified medical expenses is tax free.
- **Money is always yours.** There is no "use it or lose it" rule, and money is portable if you change jobs, medical plans, or retire.
- **You are in control of the funds.** You decide how much to contribute, when to use the funds, and whether or not to invest the funds for potential long-term growth.

A few general rules about opening and/or contributing to an HSA:

- ✓ **Employee** cannot be covered by a non-qualified health plan, or by a spouse's Health Care Flexible Spending Account.
- ✓ **Employee** cannot be claimed as a dependent on another individual's tax return.
- ✓ **Employee** cannot be enrolled in Medicare Part A or TRICARE. However, an employee can contribute to an HSA if their spouse is enrolled in Medicare.

Remember, only high-deductible health plans qualify for an HSA!

For additional information, visit IRS.gov and see Publication 969.

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Approaching retirement – under age 65

Employees can elect Consumer Choice and open and/or contribute to an HSA as a way to build savings for retirement.

Eligible employees will receive any employer HSA contributions that apply.

Employees age 55 and older can contribute the annual HSA maximum, plus an additional $1,000 catch-up contribution.

Approaching retirement – age 65 and older

Medicare eligibility	At age 65, you become eligible for Medicare benefits whether you remain an active employee or retire.
Medicare and HSAs	Employees enrolled in Medicare are no longer eligible to make contributions to an HSA. However, a spouse's Medicare enrollment doesn't affect the employee's eligibility to contribute. *Note: Receiving Social Security retirement benefits automatically enrolls you in Medicare Part A. This includes you drawing a spousal income benefit.*
Medicare enrollment	Active employees have the option to delay Medicare enrollment or withdraw from Medicare Part A in order to open and/or contribute to an HSA and receive ORNL contributions to an HSA. The choice depends on your personal situation.
Catch-up contribution	Employees age 55 and older can contribute the annual HSA maximum, plus an additional $1,000 catch up contribution.

Enrolling in Medicare when you retire

If you delayed Medicare enrollment as an active employee:

- **ORNL Benefits will give you a special enrollment form** when completing retirement paperwork to enroll in Medicare without incurring a late enrollment penalty.
- **Plan accordingly.** You must stop all HSA contributions 6 months prior to enrolling in Medicare and/or collecting Social Security. This is because Medicare Part A will be retroactive up to 6 months (but not prior to Medicare eligibility), and any HSA contributions made during those months are subject to a tax penalty.

Once enrolled in Medicare, you can use your HSA funds tax free for qualified medical expenses.

- For a list of qualified medical expenses, see IRS Publication 502: https://www.irs.gov/pub/irs-pdf/p502.pdf
- Please note that Medicare supplement (Medigap) premiums are not considered a qualified medical expense.

HSAs in retirement

In retirement, you can:

✓Use your HSA funds for qualified medical expenses.
See IRS Publication 502: https://www.irs.gov/pub/irs-pdf/p502.pdf
Note: You cannot use an HSA to pay your Medicare supplement premium.

✓Use your HSA funds for non-qualified medical expenses starting at age 65 and only pay federal income tax.

However, please know you:

- No longer receive the employer contribution from ORNL.
- Cannot contribute to your HSA through payroll deduction.
- Can contribute directly to your HSA and deduct contributions from income on Form 8889. You won't pay federal income tax, but you will pay Social Security and Medicare tax (7.65%).

Retiring before December 1 in a given year?

HSA contributions for employees who retire before December 1 in a given year may be subject to a prorated calculation of the HSA contribution limit.

This would only apply if you lose eligibility to contribute to an HSA during the year due to:

- Under Age 65 – Being enrolled in a high-deductible health plan for only a portion of a year
- Age 65 or older – Being enrolled in Medicare Part A

If applicable, the HSA contribution limit in a given year is prorated to determine the total amount allowed to be contributed to your HSA in that year. Anything contributed over this amount is subject to a 6% excise tax.

Example of proration of HSA contribution limit

<u>Scenario</u>

- **-Employee is age 67**
- **-Retiring on 9/1/2020**
- **-Has family coverage**
- **-Medicare Part A is effective 3/1/2020 (6-month retroactive rule)**

HSA annual contribution limit ÷ 12 months **$8,100 includes $1,000 catch-up contribution*	*$8,100 ÷ 12 = $675
Number of months eligible to contribute (Jan and Feb)	x 2
Total amount allowed to contribute to HSA in 2020	**$1,350**

Calculating excess contribution amount

ORNL contribution deposited in early January	$1,500
Employee's total contributions for January – August	+ $4,400
Total amount contributed to HSA at retirement	$5,900
Total amount allowed to contribute to HSA in 2020	- $1,350
Amount that's exceeded the allowable contribution	**$4,550**

In this example, the employee must contact Optum Bank before 4/15/2021 to take a distribution of the excess amount in order to avoid paying a 6% excise tax.

Worksheet to determine your 2020 HSA contribution limit - partial year eligibility

This worksheet is to assist employees in determining how much they can contribute to an HSA if they won't be eligible to contribute the entire year due to enrollment in Medicare, TRICARE, or non high-deductible health plan (HDHP).

		Individual coverage	Dual/Family coverage
#1.	Federal HSA contribution limit for 2020	$3,550	$7,100
#2.	Add $1,000 if you're age 55 or older in 2020 for the catch-up contribution		
#3.	Add #1 + #2 = **total HSA contribution limit for 2020**		
#4.	Divide limit in #3 by 12		
#5.	Number of months you are not enrolled in Medicare, TRICARE, or non HDHP (Note that if you're over age 65 when you retire, the effective date of Medicare Part A will be 6 months before your retirement date, e.g. retire 9/1, Part A effective 3/1)		
#6.	Multiply #4 x #5 = **maximum amount that can be deposited into your HSA (employer + employee)**		
#7.	HSA employer contribution from ORNL	$750	$1,500
#8.	Subtract #6 - #7 = **maximum amount you can contribute to your HSA in 2020**		

If total contributions in 2020 exceed the allowable amount on #6, you will need to contact Optum Bank to take a distribution of the excess amount before April 15, 2021 in order to avoid a 6% excise tax.

Resources

Social Security Administration: 1-800-772-1213

Social Security – Getting Benefits While Working

https://www.ssa.gov/planners/retire/whileworking.html

HSAs and Other Tax-Favored Health Plans (IRS Publication 969)

https://www.irs.gov/pub/irs-pdf/p969.pdf

Planning for Retirement with an HSA
https://benefits.ornl.gov/2019/pdf/Optum-UHC_HSA_Planning_for_Retirement.pdf

HSAs and Mid-Year Changes
https://www.optum.com/content/dam/optum/consumer-activation/unknown/HSA_Mid_Year_Changes.pdf

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