Health Savings Accounts (HSAs) and Medicare

Medicare enrollment impacts an otherwise eligible individual’s ability to establish and contribute to a health savings account (HSA). Although Medicare enrollees cannot establish HSAs or make or receive contributions to their existing accounts, these individuals can withdraw any remaining balances in previously established accounts. This In Focus provides an overview of HSA rules and highlights how these rules apply to Medicare enrollees.

Health Savings Accounts

HSAs are tax-advantaged accounts that individuals can use to pay for unreimbursed medical expenses (e.g., deductibles, co-payments, coinsurance, and services not covered by insurance). Although eligibility to contribute to an HSA is associated with enrollment in a high-deductible health plan (HDHP), HSAs are trust/custodial accounts and are not health insurance.

HSA Eligibility

Individuals are eligible to establish and contribute to an HSA if they meet three requirements in a given tax year: they have coverage under an HSA-qualified HDHP, they do not have disqualifying coverage, and they cannot be claimed as a dependent on another person’s tax return.

To be HSA qualified, an HDHP must (1) have a deductible above a minimum level (in 2020, $1,400 for self-only coverage and $2,800 for family coverage); (2) limit out-of-pocket expenditures for covered benefits to no more than a maximum level (in 2020, $6,900 for self-only coverage and $13,800 for family coverage); and (3) cover only preventive care services before the deductible is met.

Disqualifying coverage is generally considered any other health coverage that is not an HSA-qualified HDHP or that provides coverage for any benefit also covered under an individual’s HSA-qualified HDHP. For example, individuals with an HSA-qualified HDHP are not eligible to establish or contribute to their HSA if they also are covered under a spouse’s policy that is not an HSA-qualified HDHP.

HSA Contributions

If an individual is eligible to contribute to an HSA anytime during a given tax year, the total amount that individual may contribute (or may have contributed on his or her behalf—e.g., by an employer) to his or her HSA is capped. Generally, the maximum amount an individual may contribute to his or her HSA in a tax year is based on the months during the year that he or she was considered HSA eligible; the type of HDHP coverage the individual had during those months (self-only or family); and the individual’s age (those aged 55 or older are allowed additional catch-up contributions).

For 2020, the maximum annual amount an individual with self-only coverage can contribute to his or her HSA is $3,550 and the maximum annual amount an individual with family coverage can contribute to his or her HSA is $7,100. For those aged 55 or older, the maximum annual amount an individual can contribute to his or her HSA is increased by $1,000. Contribution limits are determined based on the months individuals are considered eligible, and individuals may have lower contribution limits if they were not eligible for the entire year.

HSA Withdrawals

Account holders may make tax-free HSA withdrawals to pay qualified medical expenses for themselves, their spouse, or their dependents.

For HSA purposes, qualified medical expenses include the costs of diagnosis, cure, mitigation, treatment, or prevention of disease and the costs for treatments affecting any part of the body; the amounts paid for transportation to receive medical care; and qualified long-term care services. Except for limited circumstances, health insurance premiums and over-the-counter medicines are not considered qualifying medical expenses.

Withdrawals not used to pay for qualified medical expenses must be included in an individual’s gross income when determining federal income taxes and generally also are subject to a 20% penalty tax.

Individuals who subsequently become ineligible to contribute to their HSAs retain access to their accounts and may continue to withdraw from their HSAs.

HSA Rules for Married Couples

Spouses are prevented from having joint HSA accounts (even if the spouses are covered by the same HSA-eligible HDHP). Only one spouse can be listed as the account holder for a given HSA, even though that spouse’s HSA may be used to reimburse the medical expenses of either spouse. Nothing prevents each spouse from establishing his or her own HSA, assuming each is eligible.

If both spouses are HSA-eligible and at least one spouse is covered by a family coverage HSA-eligible HDHP, then the maximum amount the couple can collectively contribute to its HSA(s) is associated with the family coverage annual limit for that year ($7,100 in 2020). The collective maximum amount is to be split evenly between the spouses’ HSAs, unless both agree on a different division. If both spouses are aged 55 or older and eligible to make catch-up contributions, each spouse must make such a contribution to his or her own account; one spouse cannot make catch-up contributions, each spouse must make such a contribution to his or her own account; one spouse cannot make catch-up contributions.
contributions to his or her own HSA on behalf of the other spouse.

For more information on HSAs, see CRS Report R45277, *Health Savings Accounts (HSAs)*, and Internal Revenue Service (IRS) Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*.

**Medicare**

Medicare is a federal health insurance program that pays for covered health care services for most people aged 65 and older and for certain permanently disabled individuals under the age of 65. Medicare consists of four distinct parts; Medicare Parts A, B, and D each cover different services, and Part C (Medicare Advantage) provides a private plan alternative for Parts A and B. Part D is an optional outpatient prescription drug benefit.

Although individuals generally enroll in Medicare Part A when they are first entitled to benefits at the age of 65, some individuals choose to delay enrollment, though delayed Medicare enrollment may have other implications (e.g., late enrollment penalty). If an individual signs up for Medicare after his or her 65th birthday, that individual’s enrollment will be retroactively applied by six months (or to the age of 65, whichever is shorter). For example, if an individual signs up for Medicare at the age of 70, his or her Medicare coverage will be retroactively applied to when the individual was 69 ½ years old.

For more information on Medicare, see CRS Report R40425, *Medicare Primer*.

**HSA Eligibility for Medicare Enrollees**

Individuals who are enrolled in Medicare are not allowed to establish or contribute to their HSA. Medicare enrollees are prohibited from contributing to an HSA regardless of whether they also are enrolled in an HSA-eligible HDHP. For example, a 66-year old individual who is enrolled in an HSA-eligible HDHP through his or her employer and also is enrolled in Medicare would not be able to make any contributions (or have any contributions made on his or her behalf—e.g., by an employer) to his or her HSA.

This rule was established in HSA law (26 U.S.C. §223(b)(7)), which states that individuals may not contribute to their HSA when they are “entitled to benefits” under Medicare. The law dates to 2003, when HSAs were first authorized. The IRS has interpreted the phrase “entitled to benefits” to mean “eligibility and enrollment” in Medicare. This rule is consistent with the general HSA rule that the ability to contribute to HSAs is generally limited to individuals whose *only* coverage is provided through an HSA-eligible HDHP.

**HSA Eligibility for Individuals with Delayed Medicare Enrollment**

If an individual aged 65 or older delayed Medicare enrollment, the individual would still be eligible to establish and contribute to an HSA (assuming he or she is otherwise eligible to do so). Since this individual would be older than 55 years of age, the maximum amount the individual could contribute to his or her HSA would include any allowable catch-up contributions.

If such an otherwise HSA-eligible individual enrolled in Medicare after turning 65, his or her Medicare enrollment would be retroactively applied by six months (or to the age of 65, whichever is shorter). This retroactive Medicare enrollment would retroactively disqualify the individual from being HSA eligible during such period, and the individual would be subject to tax penalties for any HSA contributions made during the retroactive coverage period.

**HSA Eligibility for Spouses of Medicare Enrollees**

Because HSA eligibility is determined on the individual level, an individual’s enrollment in Medicare would not affect his or her spouse’s eligibility to establish and contribute funds to his or her spouse’s HSA, even if both spouses are enrolled in the same non-Medicare plan. For example, Spouse 1 and Spouse 2 are enrolled in an HSA-eligible HDHP (family coverage) through Spouse 1’s employer. Spouse 1 is also enrolled in Medicare. Assuming Spouse 2 is otherwise eligible, Spouse 2 may establish and contribute to his or her own HSA, which may be outside of Spouse 1’s employment setting. Spouse 1 may not make contributions to his or her own account on behalf of Spouse 2.

As with contribution limits generally, the maximum amount that Spouse 2 can contribute to his or her own HSA is tied to the type of coverage Spouse 2 was enrolled in during the tax year (in this instance, family coverage); Spouse 2’s age; and the months that Spouse 2 was considered eligible. Spouse 1’s lack of eligibility to contribute to his or her HSA would not affect the maximum HSA contribution amount available to Spouse 2, other than the fact that the couple no longer needs to determine how to split the maximum contribution amount between the spouses’ HSAs.

**HSA Withdrawals After Medicare Enrollment**

Although individuals enrolled in Medicare cannot contribute to their HSAs, they can withdraw from their HSAs. As with non-Medicare enrollees, Medicare enrollees can continue to make tax-free withdrawals from their HSAs for qualified medical expenses even though they have disqualifying coverage and may no longer be enrolled in an HSA-eligible HDHP.

In addition, two HSA withdrawal rules apply differently to those aged 65 or older (irrespective of Medicare enrollment) than to most individuals under the age of 65. First, although health insurance premiums generally are not considered an HSA-qualified medical expense, this restriction does not apply to individuals aged 65 years and older; these individuals may treat any health insurance premiums (including Medicare Parts A, B, and D and Medicare Advantage premiums) as qualified medical expenses, except for premiums for Medicare supplemental (Medi-gap) policies. Second, although withdrawals not used to pay for qualified medical expenses must be included in an individual’s gross income and generally are subject to a 20% penalty tax, the penalty tax does not apply if made after an individual reaches the age of 65.
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