HSAs and Medicare

January 1, 2023

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UnitedHealthcare®

About This Presentation

This information is a brief presentation to provide highlights about certain plan information and to help members become familiar with HSA accounts as they apply to PEBC plans. This information is intended for PEBC employer groups only and is not intended for any other use. For more information about HSA accounts, contact a qualified tax or financial advisor for information specific to you.

Full details are contained in the legal documents governing the individual plans. Consult the plan documents for more information about services, limitations, and exclusions.

If there is a discrepancy or conflict between this information and the plan documents, the plan documents will govern. This presentation does not imply a promise of future benefits.

Information connected to other plans, including Medicare, Medicaid and TRICARE, is subject to the underlying rules governing eligibility and plan requirements, and the Internal Revenue Service.

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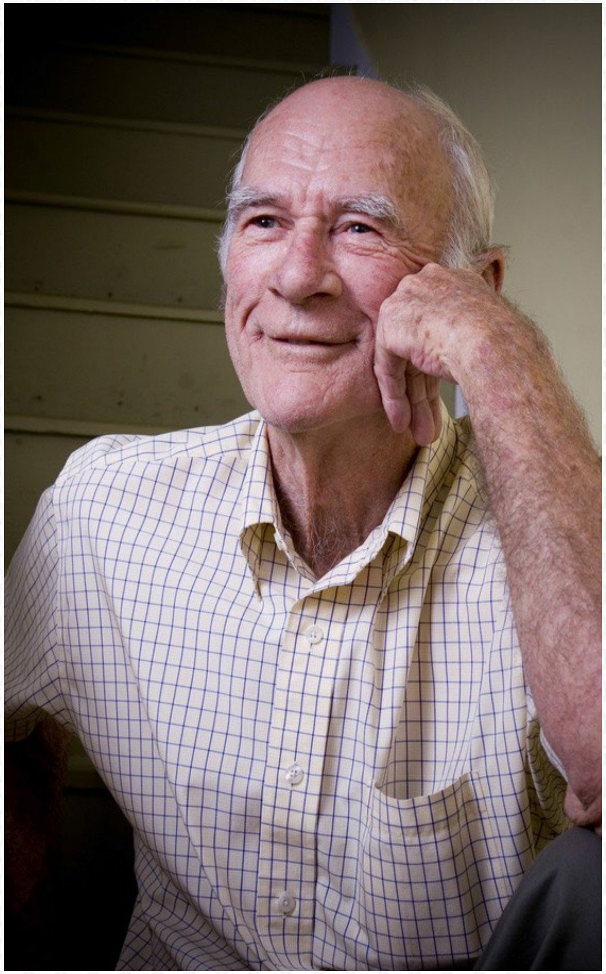
What is a health savings account (HSA)?

- A personal bank account that you own.
- You don't have to pay federal income tax on:
  - Deposits you or others make to your HSA
  - Money you spend from your HSA on qualified medical expenses
  - Interest earned on the HSA
- Money deposited into your HSA account is yours to keep, even if you change jobs, health plans or retire.
- There is no "use it or lose it" rule.



Applies to all HSAs

- Funds can be used to reimburse out-of-pocket expenses for you and your dependents claimed on your Federal Income Tax Return only (must meet IRS qualified dependent rules).
- Spouse/dependents do not have to be enrolled on your medical plan.
- Qualified medical expenses cannot be reimbursed from any other source.
- You (or someone else) can contribute to your HSA – and the tax benefit applies to you.

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HSA limits

The IRS sets contribution limits. 2023 limits are:

Employee Only - $3,850

Family - $7,750

You are strongly encouraged to contribute to your HSA and to not rely solely on employer seed-money to fund your HSA.

Your employer will deposit seed-money funds to a full-time active employee's HSA bank account in early January. Refer to the 2023 Employee Health Benefits Rate Sheet (Enrollment Packet) for more information.

If you are age 55 or older, the IRS allows you to make an annual $1,000 catch-up contribution. This can also be done through payroll deduction.

Annual HSA contribution limit 2023

- Your maximum HSA contribution is the *combined* contribution from all sources, including employer seed-money.

Employee contribution to the HSA is subject to change based on the amount of employer seed-money contribution and contributions from other sources.

Note: Your choice of health plan will determine the amount of HSA pre-tax contribution deducted from your payroll check and employer seed-money deposited to your account. You can also make after-tax contributions to your HSA and use IRS Form 8889 to adjust as appropriate.

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About the HSA bank account

- You are in charge of managing your HSA account – it is a personal bank account that belongs to you.
- Funds are available for your use only if you have funds in the HSA bank account. This is different than a general purpose flexible spending account.
- Save your receipts! You will need them later. Optum Bank does not track your spending or eligibility.
- Optum Bank may contact you for additional account information in order to establish your account.
- Account Fees
  - As long as you maintain an average balance of $500 or more, you are not charged a $1.00 per month maintenance fee.
  - If you wish to invest a portion of your balance, the monthly investment fee is $3.00 (investment threshold is $2,000).

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Eligible to make contributions to an HSA?

- You must be covered under a qualified high deductible health plan , like the High Deductible Plan (HDP) with Health Savings Account (HSA).
- You cannot be covered by another health plan (unless that plan is also a high-deductible plan). Example – you cannot be covered by a traditional health plan like a PPO and have contributions to an HSA.
- You cannot be claimed as a dependent on someone else's tax return.
- You cannot be covered by a *general purpose* health care flexible spending account (such as the PEBC FXM) or by your spouse's FSA plan. *(Limited purpose flexible spending account is ok.)*
- Contributions to an HSA are **not allowed** if you are enrolled in **Medicare,** TRICARE, TRICARE for Life, or received care from a VA facility in the three months before enrollment in the HDP Plan.

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About *qualified medical expenses*

- You are not taxed on deposits to the account (unless you contribute an amount that exceeds the limit) or any earnings on the funds. You are also not taxed on withdrawals as long as funds are used to pay *qualified medical expenses*.
- Generally, qualified medical expenses are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040). *See the instructions for IRS Schedule A and Pub. 502*. Note: Only *prescribed* medicines or drugs and insulin are qualified medical expenses.
- Expenses incurred before the HSA bank account is opened are <u>not</u> considered qualified medical expenses.
- Any funds used for something other than *qualified medical expenses* are added to gross income and will be subject to tax regardless of your age.

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Qualified medical expenses and premiums

In some cases, insurance premiums can be qualified medical expenses, if the premiums are for the items listed below. *Refer to IRS Pub. 969 or IRS Form 8889 Instructions for more information*.

1. Certain long-term care insurance,
2. Continuing COBRA coverage,
3. Health coverage during unemployment, or
4. Coverage *if **you** are **over age 65 only***, including Medicare or employer retiree health coverage.

Not qualified medical expenses:

- If you are under age 65, Medicare premiums for your spouse or dependents (who are age 65 or older).

Note: Coverage under 2 & 3 above can be for a spouse or dependent meeting the requirement.

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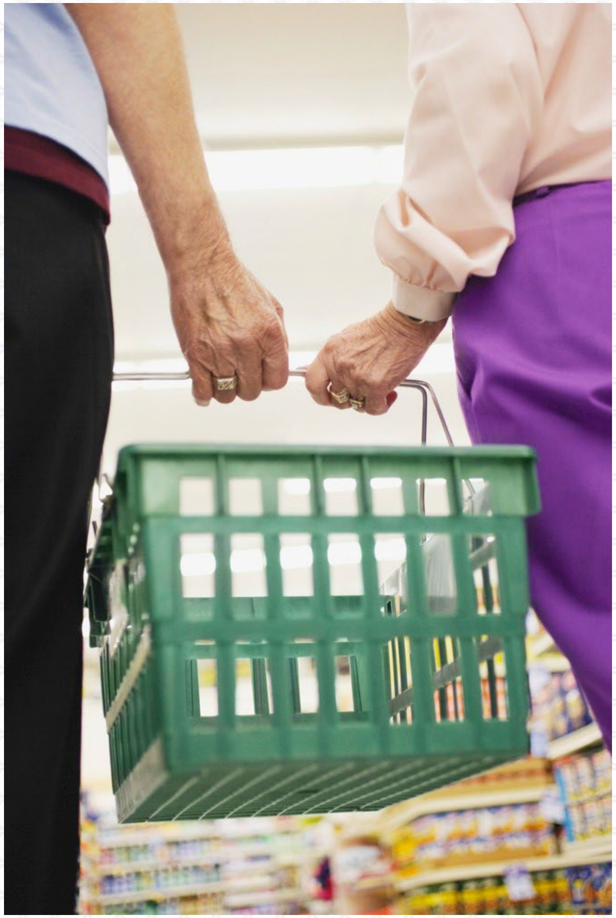
Medicare and HSAs



- By law, people enrolled in Medicare are not allowed to put money into an HSA.
- If you are married and *not enrolled in Medicare*, but your spouse is enrolled in Medicare, *you can* still *contribute* to the HSA.
- You can use HSA funds to pay for qualified medical expenses for you and your spouse – even if your spouse is enrolled in Medicare.
- As long as the expense is a *qualified medical expense* and not reimbursed from another source, tax-free HSA funds can be used to pay out-of-pocket costs.

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Should you delay Medicare enrollment?

- Whether you should delay enrollment in Medicare so you can contribute to an HSA depends on your circumstances.
- Because you work for a large employer, your employer plan pays first (before Medicare) even if you did enroll in Medicare.
- As long as you are not accepting Social Security benefits, you can choose to decline Part A until you retire.
- You can delay Part B enrollment until you lose your active coverage (retire) and enroll later, but make sure you enroll quickly to avoid penalties.
- If you are collecting Social Security retirement benefits when you become eligible for Medicare, you will be automatically enrolled in Medicare Part A and Part B.
- If you are **not** collecting Social Security retirement benefits when you become eligible, you must actively enroll yourself during your initial enrollment period. Contact your local Social Security office.

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Special precautions if you decline Medicare Part A

- Whether you were automatically enrolled in Part A and Part B or you enrolled yourself, you cannot contribute to an HSA once you have Medicare.
- If you do not take Medicare when you first qualify, you must take special precautions if and when you do decide to collect Social Security benefits (either while working or when you retire).
- You need to be sure to notify your employer to stop your HSA payroll contributions **at least six months before you collect Social Security.**
- When you apply for Social Security, Medicare Part A will be retroactive for up to six months (as long as you were eligible for Medicare during those six months).
- If you do not stop contributing the six months before you apply for Social Security, you may have a tax penalty because you were not supposed to put money into your HSA while you had Medicare.

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If you are nearing retirement, why would you consider an HSA?

- *Before* you enroll in Medicare, you can set aside pre-tax dollars for qualified medical expenses.
- Once you enroll in Medicare (Part A and/or Part B), you can no longer *contribute* to an HSA. This does not stop you from using HSA funds already in your account.
- HSA funds can be used to pay out-of-pocket qualified medical expenses and certain retiree medical plan premium – even after retired or on Medicare.
- If you are still working and thinking of enrolling in Medicare, carefully consider whether the HDP with HSA is best for you. You may need to waive the HSA contribution or contribute to a limited purpose FLEX account.

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Illustration 1 – Active employee with retired spouse Spouse enrolled in Medicare

- You are a 61 year old active employee. Your 66 year old spouse is retired and enrolled in Medicare.
- You enrolled in the HDP with HSA – Tier 2 coverage (Employee plus spouse).
- As a result of your employer medical plan election (you both are enrolled in the HDP), 2023 annual contributions to the health savings account (HSA) can total $8,750 ($7,750 plus $1,000 catch-up contribution).
- Your maximum contribution will be reduced by employer seed money.
- You can use HSA funds to pay qualified medical expenses (not reimbursed from another source) for both you and your spouse.
- You cannot reimburse yourself the cost of your spouse's Medicare premium (including the cost of Part B) because you are under age 65.

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Illustration 2 – Active employee changing from spouse's employee plan at work to HDP Plan

- You are a 61 year old active employee who wants to enroll in the HDP with HSA – employee only coverage.
- Your 66 year old spouse is still working – and both of you are currently covered by spouse's employer PPO plan. Spouse is also enrolled in Medicare.
- You can enroll in the HDP with an HSA as long as YOU are NOT covered by spouse's employer PPO Plan. (Check FSA plan enrollment.)
- As a result of your employer group medical plan selection, your maximum HSA contribution is $4,850 ($3,850 single + $1,000 catch-up) less the amount of employer seed money contribution.
- You can use HSA funds to pay qualified medical expenses (not reimbursed from another source) for both you and your spouse.
- You cannot use HSA funds to reimburse the cost of spouse's employer PPO premium and/or Medicare Part B premium because you are under-age-65.

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Illustration 3 – Active employee contemplating Medicare enrollment

- You are a 66 year old active employee who wants to enroll in the HDP with HSA – employee only coverage. You are not enrolled in Medicare (Part A or Part B).
- Your 61 year old spouse is still working – and spouse is enrolled in spouse's employer PPO plan.
- You can enroll in the HDP and contribute to an HSA as long as you are NOT covered by your spouse's employer PPO Plan and spouse does not have a Flexible Spending Account (FSA). You may choose to waive the HSA contribution or contribute to a limited purpose FLEX.
- As a result of your employer medical plan selection, your maximum contribution is $4,850 ($3,850 + 1,000 catch-up contribution) less employer seed money.
- You can use HSA funds to pay qualified medical expenses (not reimbursed from another source) for both you and your spouse.

Note: if you enroll in Medicare, you are not eligible to contribute to the HSA.

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Illustration 4 – Retiree with an HSA

- You are an active employee who retires in December of 2021 at age 67. You were enrolled in the HDP with HSA, employee plus spouse coverage since 2018.
- Neither you nor your spouse were enrolled in Medicare (Part A or Part B) while working, but both enrolled when you retired.
- You and your spouse enrolled in the PEBC Medicare Advantage PPO Plan or MA PPO plan effective January 1, 2023.
- Because you and your spouse are both enrolled in Medicare effective January 1, 2023, you cannot contribute to an HSA after that date.
- You can continue to use the funds in your HSA for qualified medical expenses (not reimbursed from another source) for both you and your spouse. You will not be subject to tax on the withdrawn funds.
- If you use the HSA funds for something other than qualified medical expenses, the amount will be added to your gross income for tax purposes – but not subject to the 20% penalty because you are over age 65.

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Important Information

You must file IRS Form 8889 with your annual tax return to report contributions to and distributions from your HSA. HSA contributions, investment earnings (if any) and withdrawals (if made for qualified medical expenses) are generally not taxable for federal (and, in most cases, state and local) income tax purposes. However, under certain circumstances, your HSA may be subject to taxes and/or penalties. And, if your HSA contributions for any year exceed the annual limit, you are responsible for contacting Optum Bank to request a refund of the excess.

Be sure to save receipts for all withdrawals from your HSA. You are responsible for verifying eligible medical expenses under the IRS tax code. Some of your responsibilities include:

- Determining your eligibility to contribute to an HSA
- Keeping receipts to show you used your HSA for qualified medical expenses
- Tracking contribution limits and withdrawing any excess contributions
- Making sure funds are transferred to a qualified HSA, and
- Identifying tax implications and reporting distributions to the IRS.

Once enrolled, contact Optum Bank for detailed information about eligible expenses and your responsibilities regarding contributions and record keeping.

Since this is your personal account and you are responsible for compliance with the tax rules, it is recommended you consult with your personal tax advisor about your personal situation or contact the IRS. Your employer cannot provide you tax advice.

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