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Social Security, Medicare, and HSAs

Remember, if your client files for Social Security (including file-and-suspend), he will automatically be enrolled in Medicare Part A. If he is over 65, enrollment will be retroactive six months (or back to age 65). He does not have a choice about this. This means that if he is contributing to a health savings account (HSA), contributions should stop six months prior to filing for Social Security. Or, if he went ahead and filed before stopping HSA contributions, he should remove those contributions before his tax filing deadline in order to avoid the 6% penalty on excess contributions.

As more employers offer HSAs paired with high-deductible health plans, more clients are facing this dilemma. The first step should be to ask the employer if there is an alternate health plan such as a health reimbursement arrangement (HRA) or flexible spending account (FSA). Some insurance companies offer a combined HRA/FSA plan whereby the employer makes contributions to the HRA while the employee may elect to contribute to the FSA. The employer's health insurance provider should have information on alternate plans. Also see IRS Publication 969.

If an alternative to the HSA is not possible, the client may have to make a choice between the Social Security benefits and the employer health benefits. Remember, he can always go off the employer plan and have health coverage through Medicare—either original Medicare paired with a standalone prescription drug plan and a Medigap policy, or a Medicare Advantage plan. When assessing the costs, be sure to take into account all Medicare premiums, including the income-related monthly adjustment amount if applicable. Please see this newsletter for a sample analysis.