



## Centers for Medicare & Medicaid Services National Training Program

### Frequently Asked Questions (FAQ): Medicare & Tax-Favored Health Programs

#### 1. Definition

##### **What are tax-favored health programs?**

Tax-favored health programs are designed to give people tax advantages to offset their health care costs. These programs use an account created solely for qualified medical expenses like doctor visits, labs, drugs, and more, depending on the program.

#### 2. Types of Programs

##### **What kinds of tax-favored health programs are available?**

Several different programs are available. Some common types are:

- Flexible Spending Arrangements (FSAs)
- Health Reimbursement Arrangements (HRAs)
- Health Savings Accounts (HSAs)
- Medicare Medical Savings Accounts (Medicare MSAs)

Each of these programs has different rules about who's eligible, who can contribute funds, how much they can contribute, and how the funds can be used as non-taxable.

#### 3. Program Rules

##### **Who makes the rules?**

The U.S. Internal Revenue Service (IRS) creates the rules for how most tax-favored health programs operate, like Flexible Spending Arrangements (FSAs), Health Reimbursement Arrangements (HRAs), and Health Savings Accounts (HSAs). The Centers for Medicare & Medicaid Services governs Medicare Medical Savings Accounts (MSAs). You should talk to your benefits administrator, the IRS, the health plan, or your tax professional (if you have one) to learn more about the rules for these programs.

#### 4. Medicare Enrollment & Timing

##### **If I have a tax-favored health plan, are there certain actions I should take when I enroll in Medicare?**

If you have a Health Savings Account (HSA), you should contact your benefits administrator and/or your fund's trustee before you enroll in Medicare so you can be sure to stop any contributions before your Medicare is effective. If you or any other authorized party, like an employer, make excess contributions to your HSA once you have Medicare, you can be charged a 6% Internal Revenue Service tax penalty on those funds and any interest they accrue until the funds are removed from your account.

Sometimes, excess contributions are due to retroactive Medicare coverage. If you delayed premium-free Medicare Part A (Hospital Insurance) enrollment when you were first eligible, your coverage can retroactively begin up to 6 months before the month you apply for Medicare (or Social Security or Railroad Retirement Board benefits), but will never be prior to the earliest date of eligibility. To avoid a tax penalty, many advisors recommend you stop contributing to your HSA at least 6 months before you apply for Medicare.

NOTE: It may take several weeks to process a request to stop any automatic contributions.

## 5. Medicare Medical Savings Account (MSA) Availability

### Where are Medicare MSAs available, and are they open to anyone?

Medicare MSAs are only offered in certain states, so you'll need to see if one's available in your area. You can't join a Medicare MSA Plan if you're eligible for Medicaid or if you have health coverage through an employer or union that would cover the Medicare MSA Plan deductible. To be eligible for a Medicare MSA Plan, you must be enrolled in Medicare Part A (Hospital Insurance) and Part B (Medical Insurance). If you're eligible, there are some personal considerations, such as whether you've used a similar plan before, like a Health Savings Account (HSA). Because it's a high-deductible health plan, you'll want to think about how comfortable you are with the potential costs while considering your current health care expenses and prescription drug needs. If you need drug coverage, you'll have to join a separate Medicare drug plan.

## 6. Contributions

### Once you have Medicare, are there rules about contributions to tax-favored health plans?

Yes. The rules depend on the type of plan you have:

You aren't allowed to make any contributions to your Health Savings Account (HSA) once your Medicare Part A (Hospital Insurance) or Part B (Medical Insurance) becomes effective. These would be considered excess contributions. This rule applies to periods of retroactive Medicare coverage. So, if you delayed applying for Medicare and later your enrollment is backdated, any contributions to your HSA made during the period of retroactive coverage are considered excess. Retroactive Medicare can be up to 6 months if you delayed enrollment but will never be prior to the earliest date of eligibility.

If you have a Flexible Spending Arrangement (FSA), as long as you're employed, you can continue to contribute to your FSA without penalty.

If you have a Health Reimbursement Arrangement (HRA) through your employer, only the employer makes contributions, and these contributions can continue once you have Medicare.

If you enroll in a Medicare Medical Savings Account (MSA), the plan deposits money from Medicare into your account each year, but you can't make contributions.

## 7. Tax Penalty for Excess Contributions

### What should I do if I owe a tax penalty?

You might have a tax penalty if you have a Health Savings Account (HSA) and don't arrange for contributions to stop when your Medicare starts. As soon as you find out that you owe a tax penalty due to excess contributions to your Health Savings Account (HSA), contact your fund's trustee and arrange to stop contributions immediately. Withdraw any excess contributions and any interest for the time period when you made the excess contributions. If you do this, you can likely file your taxes with no penalty from the Internal Revenue Service (IRS). Be sure to save all supporting documents for use at tax time. For official guidance on tax-related questions, consult with the IRS or a tax professional.

## 8. Use of Funds

### Can I still use the funds after I have Medicare?

Tax-favored Health Savings Accounts (HSAs) differ in how the funds can be used, and whether the funds will be available or "roll" into the next year (and how much), if not used in the current year. Check with your plan about use of funds and coordination with Medicare. Even though you can no longer contribute to an HSA when you're enrolled in Medicare, the existing funds will continue to gain interest.

And, you can continue to use your funds to pay for qualified medical expenses on a non-tax basis.

## 9. Information on How Programs Work

### Where can I learn more about Medicare and tax-favored health programs?

The Internal Revenue Service and the Centers for Medicare & Medicaid Services offer free publications to help you understand how these programs work. Visit [IRS.gov](https://www.irs.gov) and [Medicare.gov](https://www.medicare.gov) to learn more.

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To view all available CMS National Training Program training materials, visit [CMSnationaltrainingprogram.cms.gov](https://www.cms.gov/nationaltrainingprogram).

### Disclaimer Notice

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This isn't a legal document. Refer to the IRS or a tax professional for official guidance on any tax-related questions. Official Medicare Program legal guidance is contained in the relevant statutes, regulations, and rulings.

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