





# Regulation of Tax-Favored Health Accounts

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## § Regulated by the Internal Revenue Service (IRS)

- Medicare Medical Savings Accounts are the only exception
  - Medicare has oversight

## § “Qualified medical expenses”—Types of medical costs eligible to be covered by funds in these accounts

- Defined and regulated by the IRS



# Qualified Medical Expenses

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- § Defined by the Internal Revenue Service (IRS)
  - Costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body
  - Must be primarily to alleviate or prevent a physical or mental defect or illness
- § Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction

\*See IRS Publication 502

<https://www.irs.gov/pub/irs-pdf/p502.pdf>



# More Qualified Medical Expenses

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- § A medicine or drug is a qualified medical expense only if the medicine or drug
  - Requires a prescription
  - Is available without a prescription (an over-the-counter medicine or drug) and you get a prescription for it, or
  - Is insulin
- § Generally non-prescription medicines (other than insulin) aren't considered qualified medical expenses
- § Qualified medical expenses are those incurred by the following persons
  - You and your spouse
  - All dependents you claim on your tax return
    - Any person you could've claimed as a dependent on your return (with some exceptions)



# Different Types of Tax-Favored Health Accounts

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- § Health Reimbursement Arrangement (HRA)
- § Flexible Spending Arrangement (FSA)
- § Health Savings Account (HSA)
  - Medical Savings Account (MSA)
- § Medicare Medical Savings Account (MSA)



# What Is a Health Reimbursement Arrangement (HRA)?

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- § HRA or a “health reimbursement account” or a “personal care account”
- Reimburses employees for qualified medical expenses
  - Is a type of group health plan
  - Must be funded solely by an employer
  - Can be offered with other employer-provided health benefits, including Flexible Spending Arrangements
  - Subject to Medicare Secondary Payer reporting once Medicare eligible



# Benefits of a Health Reimbursement Arrangement (HRA)

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- § Contributions made by your employer can be excluded from your gross income
- § Reimbursements are tax-free if used to pay for qualified medical expenses
- § Any unused amounts in the HRA can be carried forward for reimbursements in later years



# Medicare Considerations and Health Reimbursement Arrangements (HRAs)

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- § Employers may allow employees to access their HRA funds after retirement to pay for
  - Qualified medical expenses including
    - ✓ Medicare premiums, deductibles, and cost-sharing
    - ✓ Medigap (Medicare Supplement Insurance) policy premiums
- § A person with Medicare may only withdraw funds
  - Employer can no longer contribute to the account
- § Decide whether to enroll in Medicare or delay
  - May generally not opt-out of Medicare coverage if receiving Social Security retirement benefits



# What Is a Flexible Spending Arrangement (FSA)?

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- § FSA or a “flexible spending accounts,” or a “cafeteria plan”
- § Reimburses employees for qualified medical expenses as they’re incurred
- § **Not** considered a group health plan
  - Employer-establish benefit plan
- § Employee contributes through voluntary salary reduction agreement
- § Employers may also contribute
- § Flexible spending accounts are generally “use-it-or-lose-it” plans
  - Generally unused funds can’t be carried over to the next year
- § Employee can have coverage through other insurance



# Benefits of a Flexible Spending Arrangement (FSA)

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- § Contributions made by your employer can be excluded from your gross income
- § No employment or federal income taxes are deducted from the contributions
- § No withdrawals
  - Only reimbursements of qualified medical expenses as they are incurred
- § Not required to report on your income tax return

# Medicare Considerations and Flexible Spending Arrangements (FSAs)

§ You can use FSA funds to pay for

- Qualified medical expenses including
  - ✓ Medicare deductibles and copayments
  - ✓ Medigap (Medicare Supplement Insurance) policy premiums

§ They can't be used to pay

✗ Medicare premiums

§ As long as you're employed, you can continue to make contributions to your FSA through payroll deduction

- Enrollment in Medicare won't prohibit your ability to contribute

§ Decide whether to enroll in Medicare or delay

- May generally not opt-out of Medicare coverage if receiving Social Security retirement benefits



# Flexible Spending Arrangement (FSA) Restrictions

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§ You can't receive reimbursements from your FSA for the following expenses

- Health insurance premiums
- Long-term care coverage or expenses
- Amounts that're covered under another health plan



# What Is a Health Savings Account (HSA)?

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- § HSA or sometimes generally called a “Medical Savings Account”
- § Account funds used for qualified medical expenses
- § High-deductible health plan (HDHP) and tax-sheltered account
  - Not a group health plan
- § Funded by any eligible individual
  - Eligibility based on the type of HSA



# Benefits of a Health Savings Account (HSA)

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- § Account can accumulate tax-deferred interest
- § Used to pay current and future qualified medical expenses
- § Account funds are fully vested and not subject to forfeiture
- § Once you're 65, you can use HSA funds to pay for
  - Qualified expenses including
    - ◻ Medicare premiums (Part A, Part B, Part C, and Part D)
    - ◻ Long-term care insurance-subject to limits based on age and are adjusted annually

# Medicare Considerations and Health Savings Accounts (HSAs)

- § Can't have another source of health insurance
  - Including Medicare
- § Use funds after retirement to pay
  - Qualified medical expenses including
    - ✓ Medicare premiums, deductibles and cost-sharing
- § You can't use funds after retirement for
  - ✗ Medigap (Medicare Supplement Insurance) policy premiums
- § A person with Medicare may only withdraw funds
  - Can no longer contribute to the account or will have penalties
    - q 6% tax penalty on any contributions and their interest until they withdraw the amount from their account



# More Medicare Considerations and Health Savings Accounts (HSAs)

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- § Decide whether to enroll in Medicare or delay
- § If you get Social Security retirement benefits, you're automatically enrolled in Medicare when you turn 65
  - Stop contributing to the HSA prior to your Medicare effective date to avoid any IRS penalties
  - Generally can't opt-out of Medicare if getting Social Security retirement benefits
    - ◻ You'd have to withdraw from monthly Social Security retirement benefits and repay any retirement benefits paid to date
- § Payments made to your HSA once your Medicare is effective have a tax penalty
  - Even if due to retroactive Medicare enrollment



# Medicare Enrollment Reminders Related to HRAs and HSAs

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- § Remember the Special Enrollment Periods (SEPs) for Part B and Part D if you lose employer coverage or the drug coverage is no longer creditable:
- Part B SEP lasts for 8 months- begins the month after your Group Health Plan coverage or employment ends
  - Part D SEP lasts for 60 days after the month your coverage ends

**NOTE:** You can enroll in Part A at anytime after your Initial Enrollment Period, if you're entitled to premium-free Part A. **BEWARE of 6-month retroactive Part A entitlement!**



# Medicare Medical Savings Accounts (MSAs)

§ Private Insurance Companies

§ Similar to HSAs with HDHP

§ Medicare MSAs are currently only available in  
3 states

1. Pennsylvania
2. New York
3. Wisconsin



# MSA Resources

§ Medicare Plan Finder [www.medicare.gov](http://www.medicare.gov)

§ To find out more information about Medicare Medical Savings Accounts

- <https://www.medicare.gov/Pubs/pdf/11206.pdf>

# More Resources

- § Call Medicare 1-800-633-4227 (TTY 1-877-486-2048)
  
- § Call IRS 1-800-829-1040 (TTY 1-800-829-4059)
  
- § IRS Publication Qualified Medical Expenses
  - [IRS.gov/pub/irs-pdf/p502.pdf](https://www.irs.gov/pub/irs-pdf/p502.pdf)
  
- § IRS Publication Health Savings Accounts and Other Tax-Favored Health Plans
  - [irs.gov/pub/irs-pdf/p969.pdf](https://www.irs.gov/pub/irs-pdf/p969.pdf)

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