IRS Announces 2021 Limits for HSAs and High-Deductible Health Plans

Employers and employees contributed more to their HSAs last year

By Stephen Miller, CEBS
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Health savings account (HSA) contribution limits for 2021 are going up $50 for self-only coverage and $100 for family coverage, the IRS announced May 21, giving employers that sponsor high-deductible health plans (HDHPs) plenty of time to prepare for open enrollment season later this year.

The annual limit on HSA contributions will be $3,600 for self-only and $7,200 for family coverage. That's about a 1.5 percent increase from this year.

In Revenue Procedure 2020-32 (https://www.irs.gov/pub/irs-drop/rp-20-32.pdf), the IRS confirmed HSA contribution limits effective for calendar year 2021, along with minimum deductible and maximum out-of-pocket expenses for the HDHPs with which HSAs are paired.

Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans

	2020	2021	Change
HSA contribution limit (employer + employee)	Self-only: $3,550 Family: $7,100	Self-only: $3,600 Family: $7,200	Self-only: +$50 Family: +$100
HSA catch-up contributions (age 55 or older)	$1,000	$1,000	No change
HDHP minimum deductibles	Self-only: $1,400 Family: $2,800	Self-only: $1,400 Family: $2,800	No change No change
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Self-only: $6,900 Family: $13,800	Self-only: $7,000 Family: $14,000	Self-only: +$100 Family: +$200

Source: IRS, Revenue Procedure 2020-32.

"Plan sponsors should update payroll and plan administration systems for the 2021 cost-of-living adjustments and should incorporate the new limits in relevant participant communications, such as open enrollment and communication materials, plan documents, and summary plan descriptions," advised Jacob Mattinson and Judith Wethall, partners in the Chicago office of law firm McDermott Will & Emery.

"Employers should consider these limits when planning for the [upcoming] benefit plan year and review plan communications to ensure that the appropriate limits are reflected," advised Damian A. Myers, senior counsel at law firm Proskauer in Washington, D.C.

Adjustments Reflect Inflation

Contribution limits for various tax-advantaged accounts for the following year are usually announced in October, "except for HSAs, which come out in the latter part of April or May," explained Harry Sit, CEBS, who writes The Finance Buff blog. The contribution limits are adjusted for inflation (rounded to the nearest $50) annually, using the Consumer Price Index for All Urban Consumers for the 12-month period ending on March 31. The catch-up contribution amount, however, is fixed by statute.

While increases in HSA contribution limits are tied to inflation rates, "health care costs continue to outpace inflation, which means Americans will spend more out-of-pocket each year," said Shobin Uralil, co-founder and chief operating office of Lively, an HSA services firm.

Nevertheless, "these new contribution limits will help increase the value of HSAs to individuals and families," Uralil said. "We're seeing growth in HSAs as a vehicle not only for health savings in the near term, but for anticipated health costs in retirement as well."

"While the increases are modest, they are an additional opportunity for Americans to prepare and pay for their health care needs," said Harrison Stone, general counsel at HSA services firm ConnectYourCare. "Annual contribution-limit increases allow HSAs to maintain their value and further grow their role as a key retirement-planning building block."

Employer HSA contributions are not treated as taxable income but do count toward employees' annual contribution limit, Stone noted.

[SHRM members-only HR Q&A: Are employer contributions to an employee's health savings account (HSA) considered taxable income to the employee? (www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/areemployercontributionstoehsahsaconsideredtaxableincometothee.aspx)*]*

Contributions Were Up

Employers and employees contributed more on average to employees' HSAs last year, according HSA investment advisory firm Devenir's 2019 Year-End HSA Market Survey (https://www.devenir.com/research/2019-year-end-devenir-hsa-research-report/).

In January 2020, Devenir collected customer data on the previous year from the top 100 HSA plan administrators in the U.S., which are primarily banks and financial services firms. Among the findings:

- The average employer contribution in 2019 was $880 (among employers that made contributions), up from $839 in 2018 and $604 in 2017.
- The average employee contribution in 2019 was $2,034 (among employees who made contributions), up from $1,872 in 2018 and $1,921 in 2017.

Looking at employer contributions from a different angle, a March 2020 medical trends report (https://www.directpathhealth.com/report/2020trends) from DirectPath, a benefits education, enrollment and health care transparency firm, and Gartner, a research and advisory firm, pegged average employer HSA contributions at the start of 2020 as follows:

- **Single coverage HSA:** $512
- **Employee plus spouse:** $996
- **Family coverage HSA:** $1,047

The findings are based on an analysis of more than 1,000 employer health plans in the firms' health plan benchmarking database:

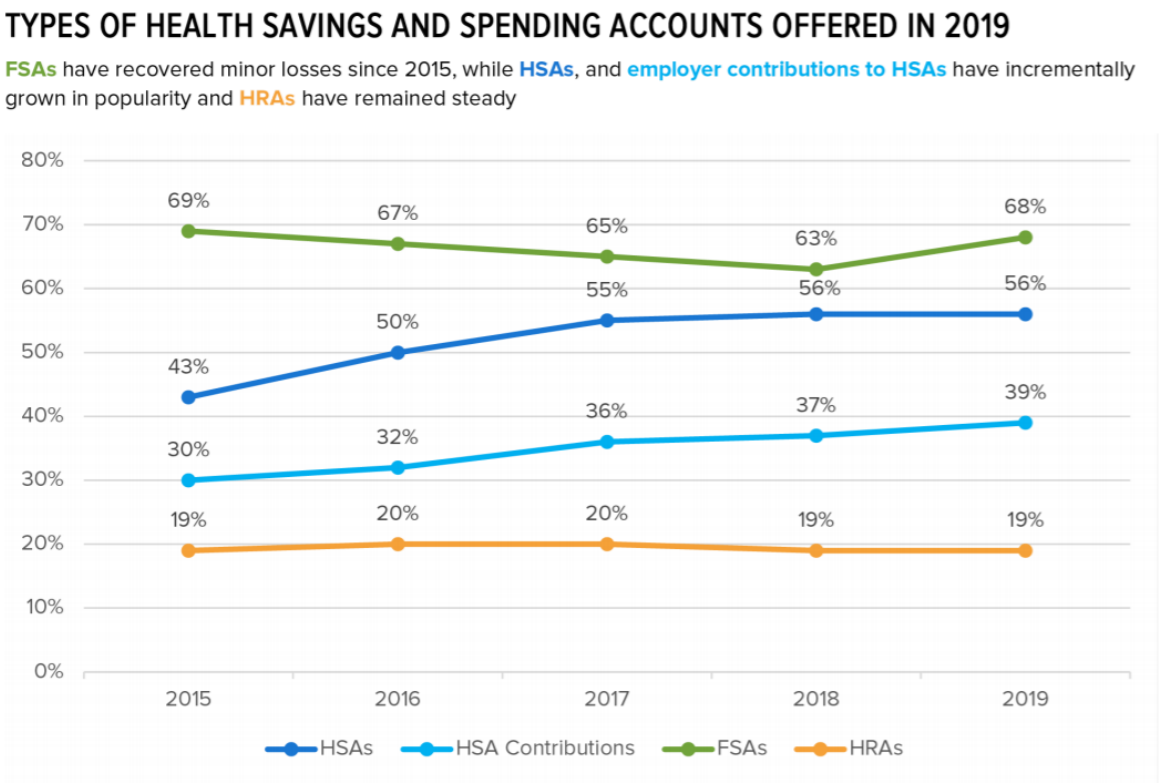
More organizations are providing opportunities for employees to "earn" employer HSA contributions by participating in wellness activities, the firms noted, although employers should keep in mind that there will always be employees who will not participate in these programs.

"The key now is to educate employees on the value [of their HSAs] so they can best utilize them—and ultimately drive down health care costs for themselves and for their employers," said Kim Buckey, vice president of client services at DirectPath.

HSA participants who are able to do so should consider contributing up to annual limits "not only to take advantage of the tax savings (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/HSA-tax-benefits.aspx), but also to ensure that they are putting themselves in a position to better afford their future health care," Uralil said. "Employers can do their part by extending HSA contributions as a benefit to their employees."

HSA Growth Outpaces Other Accounts

The Society for Human Resource Management (SHRM) 2019 Health Care and Health Services report (file:///C:/Users/smiller/OneDrive%20-%20SHRM%20AD/Downloads/_hr-today_trends-and-forecasting_research-and-surveys_Documents_SHRM%20Employee%20Benefits%202019%20Healthcare%20and%20Health%20Services.pdf), with data from the 2019 SHRM Employee Benefits survey of 2,763 HR specialists, looked at the growth of workplace HSAs—and employer contributions to them—in comparison with flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs).



ACA's Limits Differ

There are two sets of limits on out-of-pocket expenses for health plans, determined annually by federal agencies, which can be a source of confusion for plan administrators.

The Department of Health and Human Services (HHS) establishes annual out-of-pocket or cost-sharing limits under the ACA (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/HHS-2021-health-plan-parameters-raise-out-of-pocket-maximums.aspx) for essential health benefits covered under an ACA-compliant plan, excluding grandfathered plans (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/is-it-time-to-retire-grandfathered-health-plans.aspx).

The HHS's annual out-of-pocket limits are higher than those set by the IRS, but to qualify as an HSA-compatible HDHP, a plan must not exceed the IRS's lower out-of-pocket maximums.

On May 14, HHS published the Notice of Benefit and Payment Parameters final rule for 2021 (https://www.federalregister.gov/documents/2020/05/14/2020-10045/patient-protection-and-affordable-care-act-hhs-notice-of-benefit-and-payment-parameters-for-2021) and posted a fact sheet (https://www.cms.gov/files/document/final-2021-hhs-notice-benefit-and-payment-parameters-fact-sheet.pdf) that summarizes its most significant changes.

Below is a comparison of the two sets of limits:

	2020	**2021**
Out-of-pocket limits for ACA-compliant plans (HHS)	Self-only: $8,150 Family: $16,300	Self-only: $8,550 Family: $17,100
Out-of-pocket limits for HSA-qualified HDHPs (IRS)	Self-only: $6,900 Family: $13,800	Self-only: $7,000 Family: $14,000

Feedback