SHRM
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

# IRS Sets 2018 HSA Contribution Limits

Health savings account caps rise $50 for self-only plans, $150 for family coverage

By Stephen Miller, CEBS | May 5, 2017

*last updated on April 26, 2018*

The amount that individuals may contribute annually to their health savings accounts (HSAs) for self-only coverage will rise by $50 next year. For HSAs linked to family coverage, the contribution cap will rise by $150.

In Revenue Procedure 2017-37 (https://www.irs.gov/pub/irs-drop/rp-17-37.pdf), issued May 4, the IRS provided the inflation-adjusted HSA contribution limits effective for calendar year 2018, along with minimum deductible and maximum out-of-pocket expenses for the high-deductible health plans (HDHPs) that HSAs must be coupled with.

## 2018 vs. 2017 HSA Contribution Limits

| Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans | | | |
|---|---|---|---|
| | **2018** | **2017** | **Change** |
| **HSA contribution limit** (employer + employee) | Self-only: $3,450<br>Family: $6,900 (https://www.irs.gov/newsroom/irs-grants-relief-for-taxpayers-affected-by-reduction-of-maximum-deductible-health-savings-account-contributions)* | Self-only: $3,400<br>Family: $6,750 | Self-only: +$50<br>Family: +$150 |
| **HSA catch-up contributions** (age 55 or older)** | $1,000 | $1,000 | No change*** |
| **HDHP minimum deductibles** | Self-only: $1,350<br>Family: $2,700 | Self-only: $1,300<br>Family: $2,600 | Self-only: +$50<br>Family: +$100 |

* Originally set at $6,900 but a change in the inflation adjustment calculations for 2018 under the Tax Cuts and Jobs Act reduced the maximum deductible HSA contribution for taxpayers with family coverage under an HDHP by $50, to $6,850. Revenue Procedure 2018-27 allowed the $6,900 limit to remain in effect for 2018.
** Catch-up contributions can be made during the year by HSA-eligible participants who will turn 55 by year-end.
*** Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.

Contributions for a given year may be made until the individual's federal tax return due date for that year, without extensions, in which case the HSA administrator must indicate that post-yearend contributions are attributed to the prior calendar year.

| Contribution and Out-of-Pocket Limits<br>for Health Savings Accounts and High-Deductible Health Plans | | | |
|---|---|---|---|
| | **2018** | **2017** | **Change** |
| **HDHP maximum out-of-pocket amounts** (deductibles, co-payments and other amounts, but not premiums) | Self-only: $6,650<br>Family: $13,300 | Self-only: $6,550<br>Family: $13,100 | Self-only: +$100<br>Family: +$200 |
| * Originally set at $6,900 but a change in the inflation adjustment calculations for 2018 under the Tax Cuts and Jobs Act reduced the maximum deductible HSA contribution for taxpayers with family coverage under an HDHP by $50, to $6,850. Revenue Procedure 2018-27 allowed the $6,900 limit to remain in effect for 2018.<br>** Catch-up contributions can be made during the year by HSA-eligible participants who will turn 55 by year-end.<br>*** Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.<br><br>Contributions for a given year may be made until the individual's federal tax return due date for that year, without extensions, in which case the HSA administrator must indicate that post-yearend contributions are attributed to the prior calendar year. | | | |

These rate changes reflect cost-of-living adjustments, if any, and rounding rules under Internal Revenue Code Section 223.

"The contribution limits for various tax advantaged accounts for the following year are usually announced in the fall, except for HSAs, which come out in the spring," explained Harry Sit, CEBS, who edits The Financial Buff blog. Due to a mild uptick in inflation and rounding rules, the 2018 HSA limit will have small increases, he noted.

"Employers should consider these limits when planning for the 2018 benefit plan year and should review plan communications to ensure that the appropriate limits are reflected," advised Damian A. Myers, a labor and employee benefits attorney with Proskauer in Washington, D.C.

**Employer Contribution Methods**

Employers that contribute to the HSAs of their employees may do so inside or outside of a cafeteria (Section 125) plan. The contribution rules are different for each option, explains *HSAs and Employer Responsibilities* (http://blog.ubabenefits.com/hsas-and-employer-responsibilities), an analysis by United Benefit Advisors, a network of benefits advisory organizations.

- **Contributions outside of a cafeteria plan.** When contributing to any employee's HSA outside of a cafeteria plan, an employer must make comparable (https://www.irs.gov/irb/2006-33_IRB/ar08.html) contributions to the HSAs of all comparable participating employees.

- **Contributions made through a cafeteria plan.** HSA contributions made through a cafeteria plan do not have to satisfy the comparability rules, but are subject to the Section 125 nondiscrimination rules (https://www.irs.gov/publications/p15b/ar02.html#en_US_2017_publink1000193690) for cafeteria plans. HSA employer contributions will be treated as being made through a cafeteria plan if the cafeteria plan permits employees to make pretax salary reduction contributions.

To encourage greater participation, a majority (62 percent) of large U.S. employers that offer HSAs also contribute to these accounts, according to the annual Willis Towers Watson Best Practices in Health Care Employer Survey (https://www.willistowerswatson.com/en/press/2017/12/employees-fail-to-take-advantage-of-health-savings-accounts), based on responses from 555 employers with at least 1,000 employees.

In 2017, the median automatic "seed" contribution by employers was $300 for employee-only coverage and $700 for family coverage, the survey found.

However, if employers provided both an automatic contribution and an additional "earned" HSA contribution, for instance as a financial incentive for participating in wellness activities—such as completing a health assessment—then the median employer contribution (automatic plus earned) came to $750 for employee-only coverage and $1,400 for family coverage.

*[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)]*

# Age 55 Catch Up Contribution

HDHP enrollees who are age 55 or older can contribute an extra $1,000 "catch-up contribution" annually to their HSAs. The catch-up contribution can be made during the year (prior to their birthday) by account holders who will turn 55 by year-end.

"If you are married, and both of you are age 55, each of you can contribute additional $1,000," Sit said. But there's a catch, he added.

An HSA is in an individual account holder's name—there is no joint HSA even when the plan provides family coverage—so only an account holder age 55 or older can contribute the additional $1,000 in his or her own name. "If only the husband is 55 or older and the wife contributes the full family contribution limit to the HSA in her name, the husband has to open a separate account for the additional $1,000. If both husband and wife are age 55 or older, they must have two HSA accounts if they want to contribute the maximum," Sit said.

**2018 Health FSA Employee Contribution Limit is $2,650**

Beginning in 2018, the dollar limit on voluntary employee salary reductions for contributions to health flexible spending arrangements (health FSAs) is $2,650, up $50 from the 2017 limit of $2,600, the IRS announced in Revenue Procedure 2017-58 (https://www.irs.gov/pub/irs-drop/rp-17-58.pdf), issued on Oct. 19, 2017. See the *SHRM Online* article 2018 FSA Contribution Cap Rises to $2,650 (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/2018-fsa-contribution-limits.aspx).

## 'Last Month' Rule

Those covered by an HSA-eligible health plan on Dec. 1 of a given year are considered eligible individuals for the entire year and may contribute the entire year's contribution to their HSA instead of making pro rata contributions by month. This is known as the Dec. 1 or last-month rule (https://apps.irs.gov/app/vita/content/37/37_06_040.jsp?level=basic). However, partial-year HDHP enrollees who take advantage of the last-month rule must remain eligible individuals covered by an HDHP through Dec. 1 of the following year or risk tax assessments and penalties on their prior-year HSA contributions.

## Not All High-Deductible Plans Are HSA Eligible

Besides a high deductible, to qualify as an HDHP, a health insurance plan must not offer *any* benefit beyond preventive care before those covered by the plan (individuals or families) meet their annual deductible. "An otherwise high deductible plan fails the HSA qualification when it tries to be nice and it gives you some benefits before you meet the deductible," Sit explained. For instance, if the plan provides coverage in the following areas before the individual or family satisfies their deductible, it is not HSA-eligible.

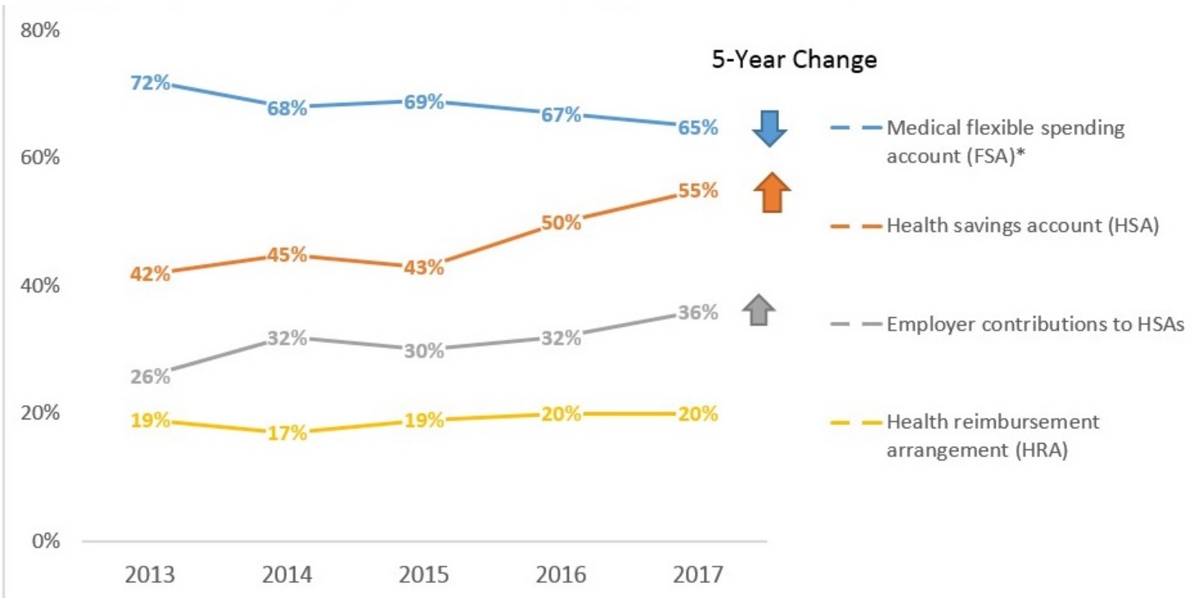
- **Prescription drugs.** Plans may not cover nonpreventive prescription drugs with only a co-pay before an individual or family meets the annual deductible.
- **Office visits.** Excluding preventive care such as physical checkups or immunizations, plans may not cover office visits with only a co-pay, without having to meet the annual deductible first.
- **Emergency.** Plans may not cover emergency services with a co-pay outside the deductible.

Besides the minimum deductible, the out-of-pocket maximum of an HSA-eligible plan also can't be higher than an inflation-adjusted number published by the IRS every year. "If your plan has a high deductible and a high out-of-pocket maximum, higher than the IRS published number, it's also not HSA-eligible," Sit said.

**More Organizations Use Health Savings Accounts**

Among Society for Human Resource Management members polled earlier this year, more than one-half (55 percent) said their organizations offer HSAs coupled with high-deduction health plans, and more than one-third (36 percent) provide an employer contribution to the HSA, according to SHRM's *2017 Employee Benefits (www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2017%20Employee%20Benefits%20Report.pdf)* report.

At the same time, there has been a slight decrease in medical flexible spending accounts (FSAs) over the past five years, while health reimbursement arrangements (HRAs) have held steady at around 20 percent.




(https://cdn.shrm.org/image/upload/v1/Benefits/HSAs-2017-SHRM_irl0uj)

(Click on graphic to view in a separate window.)

Separately, the nonprofit Employee Benefit Research Institute reported (https://www.ebri.org/pdf/briefspdf/EBRI_IB_438_HSAs.19Sept17.pdf) there were an estimated 20 million HSAs in the U.S. as of the end of 2016, and HSA-eligible plans covered nearly 3 in 10 employees. The HSA market did not exist until 2004, and more than 3 in 4 HSAs (77 percent) have been opened since 2013.

## Coverage of Adult Children

While the Affordable Care Act (ACA) allows parents to add their adult children (up to age 26) to their health plans, the tax laws regarding HSAs have not changed and an adult child must still be considered a tax dependent in order for an adult child’s medical expenses to qualify for payment or reimbursement from a parent’s HSA. This means that an employee whose 24-year-old nondependent child is covered on her HSA-qualified health plan is not eligible to use HSA funds to pay that child's medical bills.

If account holders can't claim a child as a dependent on their tax returns, then they can't spend HSA dollars on services provided to that child. Under the IRS definition, a dependent is a qualifying child (daughter, son, stepchild, sibling or stepsibling, or any descendant of these) who:

- Has the same principal place of abode as the covered employee for more than one-half of the taxable year.
- Has not provided more than one-half of his or her own support during the taxable year.
- Is not yet 19 (or, if a student, not yet 24) at the end of the tax year, or is permanently and totally disabled.

## Affordable Care Act Limits Differ

There are two sets of limits on out-of-pocket expenses that employers should keep in mind, which can be a source of confusion.

Starting in 2015, the Department of Health and Human Services (HHS) established annual out-of-pocket or cost-sharing limits under the ACA, applying to essential health benefits covered by a plan (grandfathered plans are not subject to the ACA's cost-sharing limits).

The ACA's annual out-of-pocket maximums have been slightly higher than the IRS's out-of-pocket limits on HSA-qualified HDHPs. To qualify as an HDHP, a plan must comply with the lower out-of-pocket maximum for HDHPs.

HHS published its 2018 ACA out-of-pocket limits in the *Federal Register* on Dec. 22, 2016, in its Notice of Benefit and Payment Parameters for 2018 (https://www.federalregister.gov/documents/2016/12/22/2016-30433/patient-protection-and-affordable-care-act-hhs-notice-of-benefit-and-payment-parameters-for-2018) final rule.

"The ACA requires the out-of-pocket maximum to be updated annually based on the percent increase in average premiums per person for health insurance coverage," explains an ACA compliance bulletin (http://www.stellarbenefitsgroup.com/wp-content/uploads/2017/01/Final-2018-Notice-of-Benefit-and-Payment-Parameters.pdf) by the Stellar Benefits Group in Solon, Ohio, which provides an overview of the HHS's 2018 updates.

Below is a comparison of the two sets of limits.

| | **2018** | **2017** |
|---|---|---|
| Out-of-pocket limits for ACA-compliant plans (set by HHS) | Self-only: $7,350<br>Family: $14,700 | Self-only: $7,150<br>Family: $14,300 |
| Out-of-pocket limits for HSA-qualified HDHPs (set by IRS) | Self-only: $6,650<br>Family: $13,300 | Self-only: $6,550<br>Family: $13,100 |

Beginning in 2016, the ACA's self-only annual limit on cost-sharing applied to each covered individual (www.shrm.org/hrdisciplines/benefits/articles/pages/embedded-oop-limits.aspx), regardless of whether the individual is enrolled in self-only coverage or family coverage.

## HSAs and Medicare

Under current law, individuals enrolled in Medicare may not contribute to an HSA, although HSA funds contributed earlier may be used to pay for qualified medical expenses on a tax-free basis.

As the nonprofit Medicare Rights Center explains (https://www.medicareinteractive.org/get-answers/types-of-medicare-advantage-plans-hmos-ppos-and-more/health-savings-accounts-hsas-and-medicare/health-savings-accounts-hsas-and-medicare), if individuals age 65 or older who are still employed are covered by an employer-sponsored HDHP and delay enrolling in Medicare, whether they can continue contributing to their HSA depends on their circumstances:

- If they work for an employer with fewer than 20 employees (https://www.medicareinteractive.org/get-answers/medicare-and-other-types-of-insurance/enrolling-in-medicare-when-you-have-other-types-of-insurance/medicare-can-be-primary-or-secondary-to-employer-insurance), they may need Medicare in order to have primary insurance, even though they will lose the ability to contribute to their HSA. This is because health care coverage from employers with fewer than 20 employees pays secondary to Medicare.
- If they work for an employer with 20 or more employees (https://www.medicareinteractive.org/get-answers/medicare-and-other-types-of-insurance/enrolling-in-medicare-when-you-have-other-types-of-insurance/enrolling-in-medicare-part-b-if-you-are-65-or-older-still-working-or-spouse-is-still-working-and-have-insuran), then their employer-sponsored health care coverage pays primary to Medicare, so they may choose to delay Medicare enrollment and continue contributing funds to their HSA.

Those who choose to delay Medicare enrollment must also wait to collect Social Security retirement benefits because most individuals who are collecting Social Security benefits will, when they become eligible for Medicare, be automatically enrolled into Medicare Part A.

Finally, those who delay enrolling in Medicare should make sure to stop contributing to their HSA at least six months before they plan to enroll in Medicare. This is because when someone enrolls in Medicare Part A, they receive up to six months of retroactive coverage, not going back farther than their initial month of eligibility. Those who don't stop making HSA contributions at least six months before Medicare enrollment may incur a tax penalty.

**Related SHRM Articles:**

2018 Family HSA Contribution Limit Stays at $6,900 After All (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/2018-family-HSA-contribution-limit-stays-at-$6%2c900.aspx), *SHRM Online* Benefits, April 2018

For 2018, 401(k) Contribution Limit for Employees Rises to $18,500 (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/2018-irs-401k-contribution-limits.aspx), *SHRM Online* Benefits, October 2017

2018 FSA Employee Cap Rises to $2,650 (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/2018-fsa-contribution-limits.aspx), *SHRM Online* Benefits, October 2017

Prepare for Early 2018 ACA Information Reporting on Health Coverage (https://resourcesandtools/hr-topics/benefits/Pages/final-forms-2017-ACA-information-reporting.aspx), *SHRM Online* Benefits, September 2017

Tear Down the Silos Between Employees' HSAs and 401(k)s (www.shrm.org/hr-today/news/hr-news/conference-today/pages/tear-down-the-silos-between-hsas-and-401ks.aspx), *SHRM Online* Benefits, June 2017

(www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/Draft-Forms-Help-Employers-Prepare-for-2017-ACA-Information-Reporting.aspx)

(www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/Draft-Forms-Help-Employers-Prepare-for-2017-ACA-Information-Reporting.aspx)HSA Enrollment Rises as Employer Contributions Fall (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/HSA-enrollment-rises-as-employer-contributions-fall.aspx), *SHRM Online* Benefits, May 2017

GOP's Health Care Bill Highlights an HSA Political Divide (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/GOP-health-bill-HSA-divide.aspx), *SHRM Online* Benefits, March 2017

New Law Lets Small Employers Use Stand-Alone Health Reimbursement Arrangements (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/21st-century-cures-act-stand-alone-hras.aspx), *SHRM Online* Benefits, December 2016

Health Care Consumerism: HSAs and HRAs (www.shrm.org/hrdisciplines/benefits/Articles/pages/hrasandhsasanoverview.aspx), *SHRM Online* Benefits, May 2016

Address HSA Misconceptions During Open Enrollment (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/hsas-open-enrollment.aspx), *SHRM Online* Benefits, October 2016

HSA Tax Benefits Often Overlooked (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/hsa-tax-benefits.aspx), *SHRM Online* Benefits, July 2016