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IRS Announces 2021 HSA Limits

The IRS has announced the 2021 calendar year dollar limits for health savings account (“HSA”) contributions, and the minimum deductible amounts and maximum out-of-pocket expenses for high deductible health plans (“HDHPs”). By law, these limits are indexed annually to adjust for inflation.

Background. Under Internal Revenue Code Section 223, HSAs are tax-favored accounts that individuals can use to pay for medical expenses. HSAs are subject to a variety of rules that determine account holders’ eligibility to contribute, the taxability of withdrawals and the HDHP coverage that must be paired with HSAs.

HSA contributions may only be made by or for individuals who enroll in HDHPs, and HSA-compatible HDHPs must satisfy certain requirements, including minimum annual deductibles and maximum in-network out-of-pocket (“OOP”) expenses for self-only or family coverage.

NOTE: The HDHP OOP maximum includes in-network deductibles, copayments and coinsurance, but does not include premiums or balance-billing for out-of-network services.

Revenue Procedure 2020-32. For 2021, the HSA contribution limit for a self-only HSA is \$3,600 (a \$50 increase from calendar year 2020) and \$7,200 for a family HSA (a \$100 increase from calendar year 2020).

To qualify as an HDHP in 2021, a plan must have a minimum annual deductible of at least \$1,400 for self-only coverage (no change), and \$2,800 for family coverage (no change). The maximum OOP expenses permitted for an HDHP is \$7,000 for self-only coverage (a \$100 increase) and \$14,000 for family coverage (a \$200 increase).

Takeaway for Employers. Employers are advised to begin planning for updating payroll and plan administration systems to reflect the 2021 cost-of-living adjustments. In addition, employers should be sure to incorporate the 2021 HSA limits into all relevant participant communications, such as open enrollment and communication materials, plan documents and summary plan descriptions.

Rev. Proc. 2020-32 is available at: <https://www.irs.gov/pub/irs-drop/rp-20-32.pdf>

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