SHRM
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

2019 HSA Limits Rise, IRS Says

Health savings account contribution caps up $50 for self-only and $100 for family coverage

By Stephen Miller, CEBS | November 15, 2018

After a tumultuous year of changes in the 2018 annual contribution limits for health savings accounts (HSAs)—they weren't finalized until well into the current year—health plan sponsors should have plenty of time to prepare for the 2019 HSA contribution caps, announced by the IRS on May 10.

Next year, allowable HSA contributions for participants with self-only health coverage will rise by $50. For HSAs linked to family coverage, the 2019 contribution limit will rise by $100 above the family cap set for 2018.

The IRS recalculated the 2018 family cap downward in March after Congress revised the inflation adjustment for many employer benefit rates. In April, the IRS granted relief that restored the family cap (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/2018-family-hsa-contribution-limit-stays-at-$6,900.aspx) back to the original 2018 level.

In Revenue Procedure 2018-30 (https://www.irs.gov/pub/irs-drop/rp-18-30.pdf), the IRS has provided the inflation-adjusted HSA contribution limits effective for calendar year 2019, along with minimum deductible and maximum out-of-pocket expenses for the high-deductible health plans (HDHPs) that HSAs must be coupled with.

2019 vs. 2018 HSA Contribution Limits

Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans			
	2019	**2018**	**Change**
HSA contribution limit (employer + employee)	Self-only: $3,500 Family: $7,000	Self-only: $3,450 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: +$50 Family: +$100
HSA catch-up contributions (age 55 or older)	$1,000	$1,000	No change

*The IRS originally set at $6,900 then recalculated to $6,850, but subsequently provided relief to effectively restore the original limit.

Source: IRS, Revenue Procedure 2018-30.

Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans			
	2019	**2018**	**Change**
HDHP minimum deductibles	Self-only: $1,350 Family: $2,700	Self-only: $1,350 Family: $2,700	No change No change
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Self-only: $6,750 Family: $13,500	Self-only: $6,650 Family: $13,300	Self-only: +$100 Family: +$200
*The IRS originally set at $6,900 then recalculated to $6,850, but subsequently provided relief to effectively restore the original limit. Source: IRS, Revenue Procedure 2018-30.			

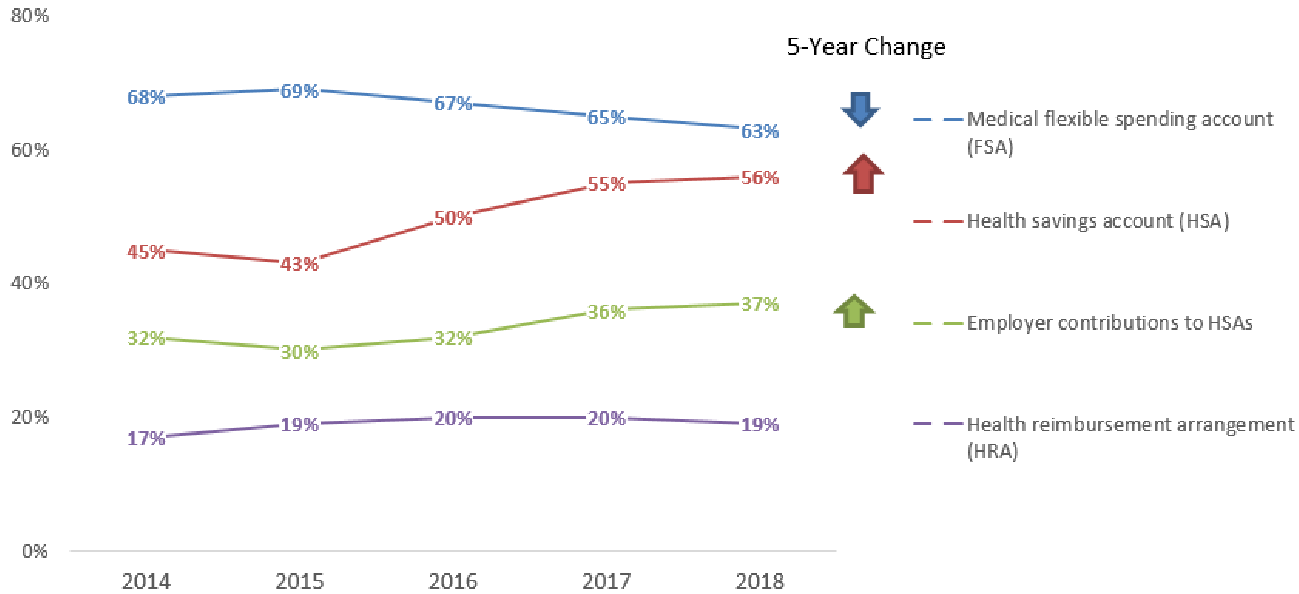
For next year's adjustments to flexible spending account (FSA) limits, see the *SHRM Online* article 2019 FSA Contribution Cap Rises to $2,700, IRS Belatedly Announces (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/2019-fsa-contribution-limits.aspx).

Employer Contributions Rise

More employers are providing HSAs as an employee benefit and more are making contributions to employees' HSAs, revealed the Society for Human Resource Management's *2018 Employee Benefits* report (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/employers-beef-up-benefits-2018.aspx).

Growth in Health Savings Accounts

Among Society for Human Resource Management members polled earlier this year, 56 percent said their organizations offer their employees HSAs coupled with high-deduction health plans and 37 percent contribute to their employees' HSAs.



(https://cdn.shrm.org/image/upload/v1/Benefits/HSA-Chart-2_tukq0f?_ga=2.140909879.443494506.1541433946-410169545.1525450797)

Source: SHRM's 2*018 Employee Benefits* report (June 2018).

In 2018, the average employer contribution to individual employees' HSAs rose to $694, up from $653 in 2017—a 6.3 percent increase —according to Mercer's National Survey of Employer-Sponsored Health Plans 2018 (https://www.mercer.us/what-we-do/health-and-benefits/strategy-and-transformation/mercer-national-survey-benefit-trends.html). Mercer, an HR consultancy, conducted the survey during the summer of 2018, with responses from about 600,000 U.S. employers with 10 or more employees.

A study by the Employee Benefits Research Institute (EBRI) found somewhat higher employer contribution levels (https://www.ebri.org/pdf/EBRI_IB_461_HSAs.15Oct18.pdf). Cross-sectional data from nearly six million HSAs with $13 billion in assets from the EBRI HSA Database showed that in 2017 individual contributions averaged $1,949, and employer contributions averaged $895.

Only 13 percent of HSA holders contributed the fully allowable annual amount last year, EBRI found.

Reliable Guidance

"The 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 early May," explained Harry Sit, CEBS, who writes The Finance Buff blog.

"While we saw an unprecedented adjustment to previously announced 2018 limits, followed by another adjustment, we have no reason to think 2019 limits will fluctuate," said Harrison Stone, general counsel at ConnectYourCare, a Baltimore-based HSA services provider. The IRS announcement "makes clear the new limits and should be reliable guidance," as the IRS "is apt to avoid additional complications, given the confusion in contributions amounts earlier in the year," he noted.

"We're increasingly seeing HSAs function as a critical resource for Americans to fund their care today, tomorrow, and in retirement," Stone added. "Annual contribution limit increases allow HSAs to maintain their value and further grow their role as a key retirement planning building block."

"Employers should consider these limits when planning for the [upcoming] 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.

Important Details

Benefit managers also should be aware of some of the fine points regarding annual HSA contributions and spending, especially when answering participants' questions or communicating the new limits for the forthcoming year:

- Catch-up contributions can be made anytime during the year by HSA-eligible participants who will be age 55 or older by the end of the year. Unlike other limits, the $1,000 catch-up amount does not vary from year to year.
- An HSA is in an individual account holder's name, even when used by a spouse or dependents with family coverage to pay medical expenses. When both spouses have self-only coverage, each spouse may contribute up to the annual HSA self-only limit in their own HSA.
- While a married couple under a family HDHP share one family HSA contribution limit, they can contribute up to that shared limit (https://www.peoplekeep.com/blog/how-hsa-contribution-limits-work-for-spouses) in separate accounts and, if both are age 55 or older, each make a separate $1,000 catch-up contribution to an account in their own name.
- While the Affordable Care Act (ACA) allows parents to add their adult children who have not reached age 26 to their health plans, the tax laws regarding HSAs have not changed and children ages 19 until age 26 must be considered a tax dependent (https://www.onedigital.com/blog/hsas-adult-children/) in order for an adult child's medical expenses to qualify for payment from a parent's HSA.
- Contributions for a given year may be made until the individual's federal tax return due date for that year (generally April 15), without extensions. The HSA administrator must indicate that such contributions are attributed to the prior calendar year.
- HSA holders who lose their eligibility during the year must pro-rate their annual contribution (https://www.benstrat.com/downloads/HSA-GPS_HSAs-and-Partial-Year-Eligibility.pdf) based on the number of months during which they were HSA-eligible on the first day of the month.
- Under the last-month rule (https://apps.irs.gov/app/vita/content/37/37_06_040.jsp?level=basic), those covered by an HSA-eligible health plan on Dec. 1 are 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. 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.
- The self-only annual limit on HDHP out-of-pocket expenses applies to each covered individual (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/embedded-OOP-limits.aspx), regardless of whether the individual is enrolled in self-only coverage or family coverage.

State Taxes

Most state tax laws align with federal laws with regard to HSAs, with some exceptions. Most notably, California and New Jersey are the only states that don't provide a state income tax deduction for HSA contributions. For employees who file income tax returns in these states, employers should configure their payroll systems to apply state tax withholding (https://thefinancebuff.com/california-new-jersey-hsa-tax-return.html)—but not federal withholding—to pay that's deferred into an employer-affiliated HSA.

California and New Jersey also tax interest, dividends and capital gains within an HSA. In addition, New Hampshire and Tennessee tax HSA dividend and interest earnings (but not eligible contributions) after a certain dollar amount (https://thehsareportcard.com/the-hsa-report-card-1/2017/12/2/any-bank-basiconlinecom) of dividend and interest income is reached for the year.

Because federal taxes don't apply to HSAs investment earnings, HSA administrators don't issue a Form 1099 for HSA interest, dividends and capital gains.

In states that tax HSA earnings, "the meticulous investors would just use software or a spreadsheet to track all purchases and sales as they always do for their taxable accounts," Sit advised.

New Inflation Gauge

Annual HSA and HDHP limits reflect cost-of-living adjustments and rounding rules under Internal Revenue Code Section 223. However, the Tax Cuts and Jobs Act enacted last December applied the so-called chained consumer price index (chained CPI) to increases in HSA and several other employee benefits—such as health flexible spending accounts, commuter plans and adoption assistance benefits.

As an inflationary measure, chained CPI rises at a slower rate than the more traditionally used CPI, since the chained CPI assumes that people will change their buying habits as costs go up, and so allows for consumer substitution among the goods and services that make up the index. For this reason, despite an uptick in the inflation rate this year, the increase for self-only coverage for 2019 was the same as for 2018 (up $50), and the increase for family coverage was smaller than was set for 2018 (up $150).

For annual IRS adjustments to HSA and HDHP limits in future years, "these dollar amounts are now going to march forward at a slower pace than they have in the past," said Barbara McGeoch, a principal at HR consultancy Mercer in Washington, D.C.

[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)*]*

ACA's Limits Differ

There are two sets of limits on out-of-pocket expenses for HDHPs 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, applied to essential health benefits covered by a plan, excluding grandfathered plans.

The HHS's annual out-of-pocket HDHP maximums have been slightly higher than those set by the IRS due to different methodologies, but to qualify as an HSA-compatible HDHP, a plan must not exceed the IRS's lower out-of-pocket maximum.

HHS published its 2019 ACA out-of-pocket limits in the *Federal Register* on April 17, 2018, in its Notice of Benefit and Payment Parameters for 2019 (https://www.federalregister.gov/documents/2017/11/02/2017-23599/patient-protection-and-affordable-care-act-hhs-notice-of-benefit-and-payment-parameters-for-2019) final rule.

Below is a comparison of the two sets of limits.

	2019	**2018**
Out-of-pocket limits for ACA-compliant plans (set by HHS)	Self-only: $7,900 Family: $15,800	Self-only: $7,350 Family: $14,700
Out-of-pocket limits for HSA-qualified HDHPs (set by IRS)	Self-only: $6,750 Family: $13,500	Self-only: $6,650 Family: $13,300

Coverage Restrictions

Besides a high deductible, an HDHP can't reimburse providers in whole or part for any health services other than preventive care before those covered by the plan meet their annual deductible.

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.

Under an HSA-compliant HDHP, some prescription drugs are coverable as preventive care in some circumstances (Caremark's 2018 list is here (https://www.caremark.com/portal/asset/preventive_dl.pdf)), but patients typically must pay out-of-pocket to treat ongoing chronic conditions until they satisfy their deductible.

"As lawmakers seek to reduce health care costs and encourage consumerism, proposals to repeal restrictions on the use of, and limits on contributions to, HSAs are likely to receive consideration," said Chatrane Birbal, senior advisor of government relations at SHRM and co-author of the *2018 SHRM Guide to Public Policy Issues* (www.shrm.org/hr-today/public-policy/hr-public-policy-issues/Documents/2018%20Public%20Policy%20Issues%20Guide%20Digital%203-5-2018.pdf).

Two recently introduced bills, the Chronic Disease Management Act (https://www.congress.gov/bill/115th-congress/house-bill/4978/text) and the Bipartisan HSA Improvement Act (https://www.congress.gov/bill/115th-congress/house-bill/5138/text), would amend the tax code so that HDHPs paired with HSAs could cover chronic disease treatment on a pre-deductible basis.

"Employers want to be able to offer the best consumer-directed options possible, but some of the rules surrounding HSAs and high-deductible plans should be updated to match the needs of a modern workforce," Birbal said.

HSAs and Medicare

Under current law, individuals enrolled in any part of 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 are employed and covered by an employer-sponsored HDHP, whether they can continue contributing to their HSA depends on these 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, 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.

Employees should keep in mind that Medicare Part A, which covers hospitalization, typically doesn't carry a premium and wraps around employer plans—at organizations with 20 or more employees—providing secondary coverage of hospital expenses not covered by the employer's plan. Employees should weigh the tradeoff of potentially higher pre-retirement hospital costs against their ability to increase the size of their HSAs before retiring.

Those who delayed enrolling in Medicare should stop contributing to their HSA at least six months before they plan to enroll in Medicare, the Medicare Rights Center advises. This is because those newly enrolled in Medicare Part A receive up to six months of retroactive coverage, so those who don't stop making HSA contributions at least six months before Medicare enrollment may incur a tax penalty.

Employees older than age 65 who deferred Medicare enrollment typically receive an eight-month special enrollment period (https://www.medicare.gov/sign-up-change-plans/how-do-i-get-parts-a-b/part-a-part-b-sign-up-periods) to sign up, starting the month after employment ends or their group health insurance ends, whichever happens first. Employees should beware that if they elect to use COBRA for their insurance for 18 months on retirement, the special enrollment period begins when they retired, not at the end of the COBRA period. The penalties for missing the special enrollment period (https://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-late-enrollment-penalty) and enrolling late are significant and, in the form of higher premiums, continuous.

Too often, employers don't caution older workers about Medicare-plus-HSA pitfalls."Employers have an obligation to inform their employees (https://www.latimes.com/business/hiltzik/la-fi-hiltzik-medicare-hsa-20171106-story.html) how to handle Medicare," but it may be rare that they do, Lawrence Kotlikoff, a Boston University economist, told the *Los Angeles Times*.

2019 QSEHRA Funding Limits

The IRS announced 2019 contribution limits for qualified small employer (QSE) health reimbursement arrangements (HRAs) in Revenue Procedure 2018-57 (https://www.irs.gov/pub/irs-drop/rp-18-57.pdf) on Nov. 15, 2018.

The QSEHRA, created by Congress in December 2016 (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/21st-century-cures-act-stand-alone-hras.aspx), is a way for small businesses with fewer than 50 full-time employees to offer nongroup health benefits. By using a stand-alone QSEHRA, small employers can offer their workers a tax-free monthly contribution to purchase their own health care policies (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/small-employers-cut-healthcare-costs-with-qsehras.aspx), either through an insurance broker or on the ACA marketplace exchange.

For tax years beginning in 2019 (https://www.peoplekeep.com/blog/2019-qsehra-contribution-limits), small businesses can offer QSEHRAs with funding of up to $5,150 for self-only employees ($429.17 per month) and $10,450 for employees with a family ($870.83 per month).

The monthly limit reflects the annual limit over a period of 12 months. For employees who become eligible for the QSEHRA midyear, the limits must be prorated to reflect the total amount of time the employee is eligible.

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-$6,900.aspx), *SHRM Online*, April 2018

IRS Sets 2018 HSA Contribution Limits (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/irs-sets-2018-hsa-contribution-limits.aspx), *SHRM Online*, May 2017

HSA Enrollment Rises but Misunderstanding Still Common (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/hsa-enrollment-rises-as-employer-contributions-fall.aspx), *SHRM Online*, May 2017

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

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

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

2019 Inflation-Adjusted Limits & Thresholds:

2019 FSA Contribution Cap Rises to $2,700, IRS Belatedly Announces (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/2019-fsa-contribution-limits.aspx), *SHRM Online*, November 2018

For 2019, 401(k) Contribution Limit for Employees Rises to $19,000 (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/2019-irs-401k-contribution-limits.aspx), *SHRM Online*, November 2018

2019 Payroll Taxes Will Hit Higher Incomes (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/fica-social-security-tax-2019.aspx), *SHRM Online*, October 2018

ACA's Affordability Threshold Rises in 2019 (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/aca-affordability-threshold-rises-in-2019.aspx), *SHRM Online*, May 2018