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2018 Family HSA Contribution Limit Stays at $6,900 After All

IRS grants relief for taxpayers affected by reduction of 2018 contribution cap

By Stephen Miller, CEBS
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The IRS on April 26 announced relief for taxpayers (https://www.irs.gov/newsroom/irs-grants-relief-for-taxpayers-affected-by-reduction-of-maximum-deductible-health-savings-account-contributions) with family coverage under a high-deductible health plan (HDHP) and who contribute to a health savings account (HSA).

For 2018, taxpayers with family coverage under an HDHP may treat $6,900 as the maximum deductible HSA contribution, up from $6,750 in 2017. The relief follows a confusing series of IRS actions:

- **In May 2017,** the IRS announced in Revenue Procedure 2017-37 (https://www.irs.gov/pub/irs-drop/rp-17-37.pdf) that the 2018 family-coverage contribution limit for HSAs would be $6,900.
- **In March 2018,** the IRS announced in Internal Revenue Bulletin No. 2018–10 (https://www.irs.gov/pub/irs-irbs/irb18-10.pdf) that a change in the inflation-adjustment calculations for 2018, under the Tax Cuts and Jobs Act, lowered the maximum deductible (https://www.irs.gov/pub/irs-irbs/irb18-10.pdf#page=17) HSA contribution for taxpayers with family coverage through an HDHP by $50, to $6,850.
- **Now,** in Revenue Procedure 2018-27 (https://www.irs.gov/pub/irs-drop/rp-18-27.pdf), the IRS has granted relief for affected taxpayers by allowing the originally announced $6,900 family-coverage HSA contribution cap to remain in effect for 2018. The IRS cited “numerous unanticipated administrative and financial burdens” in response to the $50 reduction.

For 2018, the HSA contribution limit for account holders with self-only coverage through an HDHP will be $3,450, as announced in May 2017 and not adjusted since.

2018 vs. 2017 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 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 Family: $6,750	Self-only: +$50 Family: +$150
HSA catch-up contributions (age 55 or older)	$1,000	$1,000	No change
HDHP minimum deductibles	Self-only: $1,350 Family: $2,700	Self-only: $1,300 Family: $2,600	Self-only: +$50 Family: +$100
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Self-only: $6,650 Family: $13,300	Self-only: $6,550 Family: $13,100	Self-only: +$100 Family: +$200
Source: IRS.			

Welcomed Relief

"SHRM applauds the new IRS guidance to allow employees with family coverage under a high-deductible health plan to proceed in contributing up to $6,900 to an HSA," said Chatrane Birbal, senior advisor of government relations at the Society for Human Resource Management.

"The abrupt announcement earlier this year to lower the 2018 contribution level to $6,850 created confusion for employees and an administrative burden on employers that offer HSAs, especially since benefit offerings were solidified last year," she said. "Some employers had already begun making the necessary changes to comply with the IRS earlier guidance, which required employers to update payroll systems and revise employee benefit communications, among a number of other systematic updates."

The $50 reduction in the HSA limit for family coverage "created uncertainty for plan participants and threatened to impose enormous burdens for employers that provide HSAs," said Kathryn Wilber, the senior counsel for health policy at the Washington, D.C.-based American Benefits Council, an employers group. "Imposing a reduction in the maximum during a plan year would have required employers and service providers to re-program benefit and payroll systems, revise employee-benefit communications and return excess HSA contributions to employees."

Options for Participants

When the IRS re-calculated the 2018 HSA contribution family limit, the change "created headaches for everyone," said Harry Sit, CEBS, who writes The Financial Buff blog (https://thefinancebuff.com/2018-hsa-family-coverage-6900-ok.html). "Employers, administrators and taxpayers had to jump through hoops for a petty $50. Now the IRS said forget it. We can go by the original $6,900 limit or the new $6,850 limit."

For HSA participants who had contributed the full $6,900 for the year and then withdrew $50 with earnings, "now you can put it back into the HSA if the HSA custodian accepts it," Sit explained. "If you decide to keep the $50 with earnings, you can go by the $6,850 limit and treat it as a normal withdrawal of excess contribution."

For employers, "If you (or your payroll vendor) reprogrammed your payroll systems to reflect the $50 limit cut, you can now undo that and go back to $6,900," advised (https://www.hubinternational.com/products/employee-benefits/compliance-bulletins/2018/04/hsa-family/) Chicago-based benefits brokerage HUB International. "If you communicated the $50 limit cut to your employees, you probably want to communicate this increase as well."

[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)*]*

Back and Forth

The latest IRS rate change "was not entirely unexpected," said Kim Buckey, vice president of client services at Birmingham, Ala.-based DirectPath, a provider of employee engagement, health care transparency and compliance services for *Fortune* 1000 employers. When the original $6,900 amount was announced in May 2017, "employers communicated that amount in their open-enrollment materials, revised their websites and updated—or had their vendors update—their payroll and HSA administration systems accordingly, and employees based their contribution decisions on that limit," she noted.

"The hard costs of correcting those systems and communication materials, and possibly refunding any excess contributions of $50—not to mention the 'soft cost' of the hit to employee relations and the tax implications—prompted strong pushback from employers and individuals with high-deductible plans," Buckey pointed out. As a result, "the Treasury Department agreed that a mid-year change would cause an undue burden on all concerned, and has reinstated the $6,900 family limit for 2018."

"Many employees calculate their pretax contributions to HSAs at the start of the year and don't think about it again until tax time," said Ryan McCostlin, a team member at Bernard Health, a benefits brokerage and HR software company in Nashville, Tenn. "Generally, employees who over-contribute to an HSA and don't correct it will get hit with a 6 percent excise tax."

When the contribution rate was lowered in March, many HSA participants with family coverage had already set their contribution limit to be automatically deducted from their paychecks throughout the year, or had chosen at the start of the year to contribute the full amount of $6,900, McCostlin explained. Without relief, they would have overstepped the 2018 contribution limit.

"Most people who maxed out their HSA contribution schedule early in the year probably didn't do anything after getting an e-mail from HR notifying them that the 2018 limit had been reduced back in March, and they would have been hit with an excise tax if not for this most recent change," McCostlin said. "The good news for them is that as a result of their inaction they're back in a good spot!"

The IRS is expected to announced 2019 tax-deferred HSA contribution limits shortly.

Tweak HSA Communications to Boost Contributions

If your employees are barely using their HSAs, now might be the time to revisit your communications, advised Helen Calvin, chief revenue officer at Chicago-based Jellyvision, a benefits-communication software firm.

"Be concrete and tell stories," she advised. Don't be afraid to give some real numbers. List out how many actual dollars people stand to save on taxes if they make various HSA contributions." Another tip: "Describe their HSA tax savings as something that is theirs to lose."

Remember, "your employees can enroll in—and contribute to—their HSA at any time," Calvin added. Reach out consistently, whenever your employees are best primed to care: at the beginning of a new plan year, in March and April when tax savings are front of mind, or after a pay raise or promotion."

Related SHRM Article:

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