

HSA Contributions and Partial-Year Eligibility 2021

Health Savings Account (HSA) rules generally apply to calendar years, regardless of when your company's benefits renew, when you join the plan or when you leave the plan. In this article, we review the intersection of HSAs and partial-year eligibility to help employees maximize their opportunity to build HSA balances and minimize their taxable income while remaining in compliance with HSA regulations.

1. How are HSA contribution limits tracked?

The contribution limits imposed by the Internal Revenue Service (IRS) are tracked on the calendar year. These 2021 limits are:

Self-only coverage:	\$3,600
Family coverage:	\$7,200
Catch-up:	\$1,000 additional annually if age 55 or older

2. How is my contribution limit impacted if I lose my eligibility during the year?

You must pro-rate your contribution based on the number of months during which you were HSA-eligible on the first day of the month.

Example: You enroll in Medicare Part A (a disqualifying event) effective Oct. 1. You were covered on a self-only contract during the first 10 months of the year. Your maximum contribution for 2021 is 10/12 of \$3,600, or \$3,000. In addition, assuming you're age 55 or older, you can contribute 10/12 of \$1,000, or \$833.33. Total 2021 contribution: \$3,833.33.

3. How is my contribution limit impacted if I become HSA-eligible during the year?

If you are under age 55 and enroll between Jan. 2 and Dec. 1, you can take one of two approaches:

- *Pro-rate:* You can pro-rate your contribution based on the number of months that you were HSA-eligible, as outlined above. For example, if you start a new job Oct. 15, enroll in an HSA-qualified medical plan immediately and meet all eligibility criteria, you won't be HSA-eligible until Nov. 1. You can contribute no more than 2/12 of the \$3,600 annual maximum, or \$600. The comparable figure for family coverage is \$1,200.

- *Last-Month Rule:* If you become eligible by Dec. 1, you can contribute up to the contribution limit for the calendar year (in our example, up to the full \$3,600 rather than only \$600). You must remain HSA-eligible through the "testing period" (through the end of the *following* calendar year). If you lose eligibility before the end of the testing period for any reason other than death or disability, any contributions in excess of the pro-rated amount are included in your taxable income and subject to an additional 10% penalty unless you lose HSA eligibility during the testing period as a result of disability or death.

4. How is my contribution limit impacted if I switch from self-only to family coverage during the calendar year?

See the answer to question 3. You can add your monthly contribution limits or use the Last-Month Rule to make a full family contract contribution while maintaining coverage through the testing period.

Example: You're under age 55 and have self-only coverage through your May, wedding, then family coverage for the remainder of the year:

- *Pro-rate:* Contribute up to the monthly maximum of \$300 per month for a self-only contract (\$3,600/12 months) for January through May (total \$1,500) and the monthly maximum of \$600 for a family contract (\$7,200/12 months) for June through December (total \$4,200), for a total of \$5,700. You face no testing period if your contribution falls below this amount.

- *Last-Month Rule:* You contribute up to the family contract maximum of \$7,100. If you don't remain HSA-eligible through the end of 2021 (the testing period), any 2021 contribution in excess of the pro-rated maximum is included in your taxable income and subject to an additional 10% penalty unless you die or are disabled.

5. How is my contribution limit impacted if I switch from family to self-only coverage during the calendar year?

You must pro-rate your contribution. If you cover yourself and a child and the child ages off the medical plan at the end of July, you can make up to seven months of family contribution and up to five months of self-only contributions. You face no testing period.

6. How is my contribution limit impacted if I lose HSA eligibility temporarily, for example by receiving services at a Dept. of Veterans Affairs (VA) or Indian Health Services (IHS) facility that disqualify me temporarily from HSA eligibility?

When you receive non-preventive care from these facilities (or treatment for a non-service related condition at the VA), you lose eligibility for three full months following your receipt of the services.

Example 1: You injure your knee playing tennis and undergo an examination and MRI at a VA facility on June 25. You lose your HSA eligibility for July, August and September. You can prorate your contributions (nine months total for self-only coverage or family coverage) or use the Last-Month Rule to contribute up to the maximum (\$3,600 or \$7,200) and remain HSA-eligible through the testing period.

Example 2: Same injury as above, but you receive care at the VA on Oct. 6. You lose HSA eligibility for November, December and January. You're not HSA-eligible Dec. 1, so you can't take advantage of the Last-Month Rule. Instead, you must pro-rate your contribution to reflect the number of months during which you were HSA-eligible as of the first day of the month. Assuming that you were HSA-eligible all prior months leading up to your VA visit, you can contribute 10/12 of the maximum contribution for your contract type into your HSA for that year.

Table of Pro-Rated Contributions for 2021

Months Eligible	Self-Only Under 55	Self-Only 55-Plus	Family Under 55	Family (2 Adults) 55-Plus	Catch-up Only
1	\$ 300.00	\$ 383.33	\$ 600.00	\$ 766.67	\$ 83.33
2	\$ 600.00	\$ 766.67	\$ 1,200.00	\$ 1,533.33	\$ 166.67
3	\$ 900.00	\$ 1,150.00	\$ 1,800.00	\$ 2,300.00	\$ 250.00
4	\$ 1,200.00	\$ 1,533.33	\$ 2,400.00	\$ 3,066.67	\$ 333.33
5	\$ 1,500.00	\$ 1,916.67	\$ 3,000.00	\$ 3,833.33	\$ 416.67
6	\$ 1,800.00	\$ 2,300.00	\$ 3,600.00	\$ 4,600.00	\$ 500.00
7	\$ 2,100.00	\$ 2,683.33	\$ 4,200.00	\$ 5,366.67	\$ 583.33
8	\$ 2,400.00	\$ 3,066.67	\$ 4,800.00	\$ 6,133.33	\$ 666.67
9	\$ 2,700.00	\$ 3,450.00	\$ 5,400.00	\$ 6,900.00	\$ 750.00
10	\$ 3,000.00	\$ 3,833.33	\$ 6,000.00	\$ 7,666.67	\$ 833.33
11	\$ 3,300.00	\$ 4,216.67	\$ 6,600.00	\$ 8,433.33	\$ 916.67
12	\$ 3,600.00	\$ 4,600.00	\$ 7,200.00	\$ 9,200.00	\$ 1,000.00

This information is accurate as of January 2010. Please note that this discussion is for informational purposes only and is based on current regulations. It doesn't represent, and shouldn't be construed as a substitute for professional advice. Please consult your personal legal, financial or tax counsel to discuss your personal situation and refer to [IRS Publication 969](#).