

HSA Contributions and Proration

An HSA participant may need to prorate their contribution limits due to a change in coverage in the corresponding HSA qualified High Deductible Health Plan (HDHP). Typical reasons are enrolling in or ending coverage in a HDHP mid year; enrolling in Medicare; or changing HDHP coverage level mid year due to adding or dropping dependents.

Contribution limits are determined annually by the IRS and operate on a calendar/tax year basis. Generally, the contribution limits need to be prorated by the number of months in the year that someone is HSA eligible*.

HSA Annual Contribution Limits

Contributions are those made by you, your employer and anyone else

	2016	2017
Individual	\$3,350	\$3,400
Family	\$6,750	\$6,750

Calculating A Prorated Contribution Limit:

1. Total annual contribution limit based on coverage type (either individual or family)
2. Divide that amount by 12
3. Determine number of months eligible to contribute - this is based on coverage as of the first day of a month
4. Multiply the number of months determined in Step 3 by the dollar amount determined in Step 2

EXAMPLE: An employee enrolls in a HSA qualified HDHP on July 1, 2016 at the individual coverage level.

1. The annual contribution limit for individual coverage in 2016 is \$3,350.
2. $\$3,350 \div 12 = \279.17
3. Months of eligible coverage (July 1 – December 31) is 6
4. $\$279.16 \times 6 = \$1,675$

The employee can have a total of \$1,675 in contributions for 2016.

Prorating the Catch Up Contribution:

HSA participants age 55 and older are permitted to contribute an additional \$1,000 to their HSA annually. If the participant is not HSA eligible for the entire year, the catch up contribution needs to be prorated. This calculation is:

1. Catch up contribution amount (\$1,000) \div 12
2. Number of months HSA eligible
3. Dollar amount from Step 1 multiplied by number of months in Step 2

EXAMPLE: An employee is HSA eligible July 1, 2016 – December 31, 2016

$(\$1,000 \div 12) \times 6 \text{ months} = \500

The employee can contribute an additional \$500 for 2016 if they are age 55 or older

Using the Last Month Rule Instead of Prorating:

If an employee feels confident they will be enrolled in the HSA qualified HDHP on December 1 of the current calendar year AND for all of the next calendar year, they can follow the “last month rule” to contribute the full contribution limit, rather than prorating. IMPORTANT: If the last month rule is followed but the employee is not enrolled on December 1 of the current year or not enrolled for all of the next calendar year, income and penalty taxes may apply to contributions made in excess of the prorated amount.

Calculating Proration When There Is A Change in HDHP Coverage Level Mid Plan Year

There is a different proration to do if an employee changes coverage level during the calendar year. Under this method the employee needs to determine the amount they can contribute under each level, based on the number of months enrolled under each coverage level.

Determine Individual Coverage Limit

1. Individual contribution limit $\div 12$
2. Number of months in the calendar year with individual coverage
3. Multiply the number of months from Step 2 by the dollar amount from Step 1

Determine Family Coverage Limit

1. Family contribution limit $\div 12$
2. Number of months in the calendar year with family coverage
3. Multiply the number of months from Step 2 by the dollar amount from Step 1

Determine Total Coverage Limit

Add the dollar amounts together from both Steps 3. This is the annual contribution limit.

Example: In 2016, employee is enrolled in individual HDHP coverage from January 1 – May 15, and in family HDHP coverage from May 16 – December 31. Remembering that coverage level for the HSA is determined as of the first day of the month, the employee has 5 months of individual coverage and 7 months of family coverage.

2016 Individual limit \$3,350

$(\$3,350 \div 12) * 5 = \mathbf{\$1,396}$

2016 Family limit \$6,750

$(\$6,750 \div 12) * 7 = \mathbf{\$3,938}$

$\mathbf{\$1,396 + \$3,938 = \$5,334}$, this is the employee's contribution limit for 2016.

* HSA participants are solely responsible for calculating and monitoring their own contribution limits.

This document assumes the tax year is the calendar year. Rules may be different if the tax year is not the calendar year. Information in this document is considered general information in nature and may not apply to your specific situation. You should consult with your own tax advisor regarding your specific tax needs. Benefit Strategies, LLC is not responsible for your use of this information or for any errors or inaccuracies resulting from your use.

