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Health savings account (HSA) contributions and mid-year changes

Your eligibility to make contributions to an HSA can change mid-year for many reasons. Maybe you added or dropped an HSA qualifying high deductible health plan (HDHP) because you started a new job, enrolled in Medicare, or simply because you work for an employer whose benefits renew mid-year. As a result, you may need to prorate your HSA contribution limit.

Calculating contribution limits.

HSA contribution limits are determined on a calendar/tax-year basis. IRS rules state that contribution limits must generally be prorated by the number of months you are eligible to contribute to an HSA. Your eligibility is based on your coverage status on the first day of the month.

To calculate your personal contribution limit:

1. Take the total annual contribution limit based on your coverage type (individual or family).
2. Divide that amount by 12.
3. Multiply it by the number of months that you qualify that year.

For example, let's say you were eligible to contribute to your HSA for 4 months this year. Your personal contribution limit would be:

$3,550 ÷ 12 x 4 = $1,183

(Based on 2020 individual contribution limits)

Special exception: The last month rule.

If you are eligible to contribute to an HSA on the first day of the last month of your tax year, you are considered eligible for the entire year, provided you stay enrolled in an HSA qualifying HDHP. For example, you are eligible to contribute to an HSA by December 1, 2019 and stay eligible through December 31, 2020.

Prorated contribution limits for 2020

(Rounded down to the nearest dollar)

Number of months	Individual	Family
12 months	$3,550	$7,100
11 months	$3,254	$6,508
10 months	$2,958	$5,916
9 months	$2,662	$5,325
8 months	$2,366	$4,733
7 months	$2,070	$4,141
6 months	$1,775	$3,550
5 months	$1,479	$2,958
4 months	$1,183	$2,366
3 months	$887	$1,775
2 months	$591	$1,183
1 month	$295	$591

Prorating and applying the last month rule when switching coverage type mid-year.

You may also be able to apply the last month rule if you change coverage mid-year. For example, let's say Erika changed coverage from individual to family on July 1, 2020. She can contribute the full-family maximum amount that year, as long as she maintains family coverage from December 1, 2020 through December 31, 2021.

But, what if in July Erika changed from family coverage to individual coverage for the remainder of the year? She can contribute more than the individual maximum contribution but less than the family maximum contribution.

To calculate her contribution limit she would:

1. Take the number of months you'll have individual coverage multiplied by the total annual individual contribution limit divided by 12.
2. Add that amount to the number of months you'll have family coverage multiplied by the total annual family contribution limit divided by 12.

If Erika changed her coverage from family to individual on July 1, 2020, she would calculate her contribution amount as follows:

(6 x \$295) + (6 x \$591) ≠ \$5,316

(Based on 2020 contribution limits rounded down to the nearest dollar)

Prorating and applying the last month rule to catch-up contributions for age 55 and up.

Catch-up contributions are also subject to the proration and last-month rules. In general, and unless the last- month rule applies, an individual must be eligible for 12 months to contribute the total annual catch-up contribution (\$1,000).

To calculate the catch-up contribution limit:

1. Take the total available catch-up contribution amount (\$1,000).
2. Divide that amount by 12.
3. Multiply it by the number of months that you qualify that year.

For example, let's say George enrolled in Medicare on July 1, 2020 and was no longer eligible to contribute to his HSA. He would calculate his catch-up contribution amount as follows:

\$1,000 ÷ 12 x 6 = \$500

Contributed too much?

If you've contributed too much to your HSA, you have until the tax deadline (generally April 15) of the following year to correct the error. Log in to your account at optumbank.com and fill out the Excess Contribution and Deposit Correction Request Form. Be sure to indicate that the withdrawal is for an excess contribution. If you do not withdraw the funds by the tax deadline, you will pay tax on any overage amounts and investments earned. You will also be charged an excise tax penalty.

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