

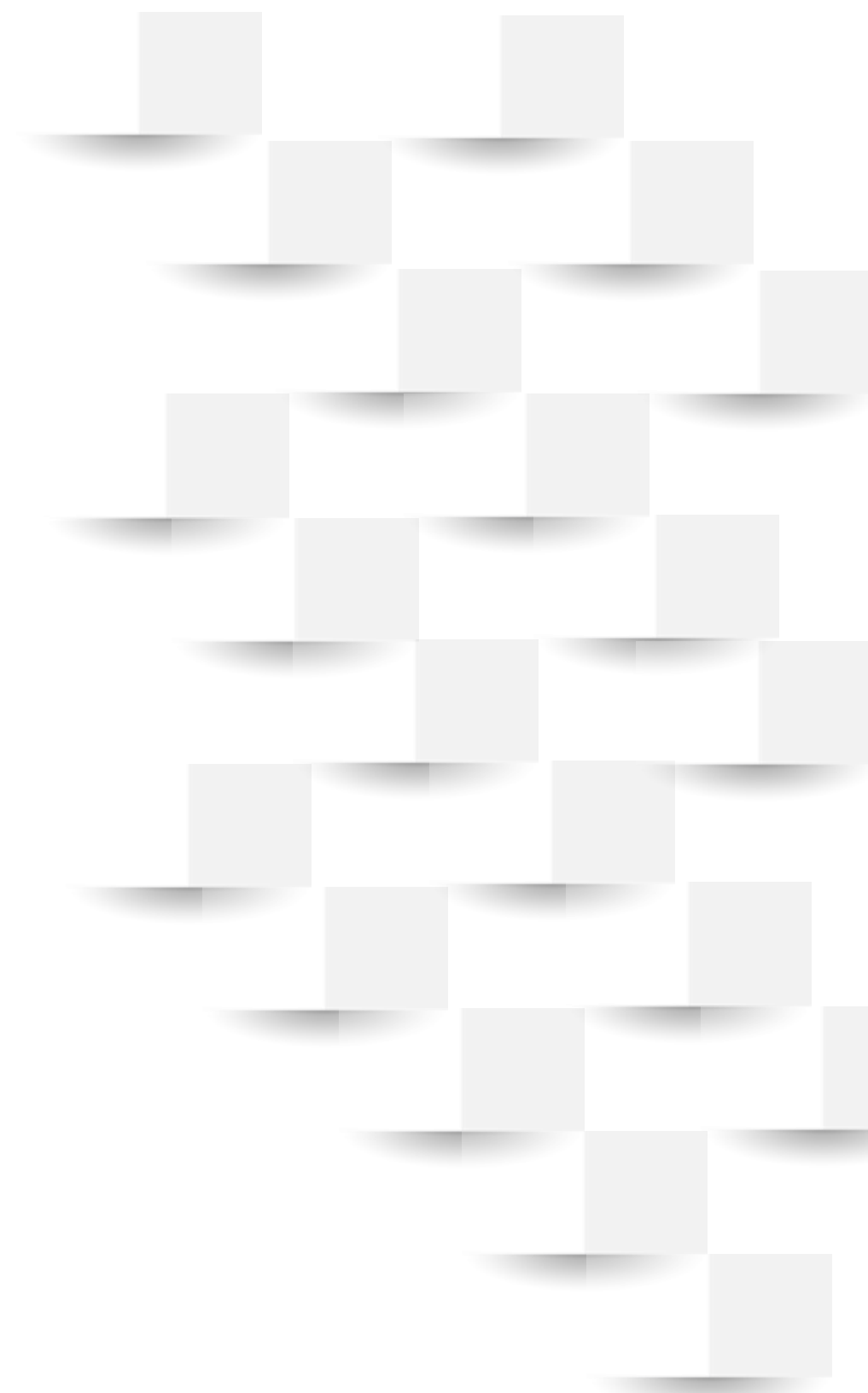


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Annual Limits

November 2024

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Agenda

- Introduction to Annual Limits
- Annual Limits for:
 - Health FSAs
 - DCAPs
 - HSAs
- Examples

Introduction to Annual Limits

Which accounts are we talking about?

- Health FSAs and HSAs may be used to reimburse qualifying medical expenses on a tax-favored basis
- DCAPs may be used to reimburse qualifying daycare expenses on a tax-favored basis
- The IRS limits how much an individual can benefit from these accounts on an annual basis.... how different can annual limits be?

Annual limits...

...can be very different depending on how they are applied:

Calendar
year or
plan
year?

Per
employee or
per
household?

When
prorating is
necessary?

To employee
and/or employer
contributions,
reimbursements?

What about HRAs?

- HRAs may also be used to reimburse qualifying medical expenses on a tax-favored basis
- Only employers may contribute to HRAs, and they set the maximum
- HRAs do not have a regulatory maximum on contributions or reimbursements
 - Except EBHRAs and QSEHRAs

Annual Limits for Health FSAs, DCAPs, & HSAs

Annual Limits for Health FSAs

- Apply on a plan year basis
 - Applicable limit is the one in effect on first day of the plan year
- Apply per employee, and per employer
 - Someone with multiple employers can have multiple maxed out FSAs
- Apply only to employee contributions (salary reductions)
 - Employers must consider excepted benefit rules with their contribution though
- Short plan years **MUST** pro-rate
- Midyear enrollees do **NOT** have to pro-rate, but can by design

Salary Reduction Limits for FSAs	
2024	\$3,200
2025	\$3,300

Annual Limits for DCAPs

- Apply on a calendar year basis
 - Non-calendar year plan years can cause issues
- Apply per family/households
 - Spouses must split the limit between them
- Apply to both employee and employer contributions*
 - The limit is actually for reimbursements from the DCAP
- Short plan years are not required to prorate, but recommended
- Midyear enrollees are not required to prorate, but again recommended

DCAP Reimbursement Limit	\$5,000
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Annual Limits for HSAs

- Apply on a calendar year basis
- Apply per employee
- Apply to both employee and employer contributions
- Short plan years are required to prorate
- Midyear enrollees are required to prorate
- Monthly contribution rule:
 - An employee may contribute up to 1/12th of the annual contribution limit for each month that they are HSA-eligible
 - Exception: the last month or full contribution rule
- Special rule for married individuals
 - If both spouses are HSA-eligible and at least one spouse has family-level coverage, spouses must share the family limit

Contribution Limits for HSAs	
Single – 2024	\$4,150
Family - 2024	\$8,300
Single – 2025	\$4,300
Family - 2025	\$8,550

In summary...

	Timeframe for limit	Limit applies per...	Contribution types	Prorating for a short plan year	Prorating for a midyear enrollee
FSA	Plan year	Employee, per employer	Employee only	Required	Not required
DCAP	Calendar year	Household	Both employee and employer	Not required, but recommended	Not required, but recommended
HSA	Calendar year	Employee	Both employee and employer	Required	Required

Examples

Example 1 – Health FSAs

- Denise works for Employer A, who offers a health FSA that runs on a calendar year. Denise elected \$3,300 for the 2025 plan year. Denise leaves Employer A and is hired by Employer B in May 2025, who also offers a health FSA that runs on a calendar year. How much can Denise contribute to her health FSA under Employer B?
A: \$3,300 – unless Employer B’s plan design limits midyear enrollees
- Same facts as above, but Employer A has a November 1 – October 31 plan year, and Employer B has a May 1 – April 30 plan year.
A: \$3,200 for Employer A (plan year started in 2024); \$3,300 for Employer B (plan year started in 2025)
- Same facts as above, but Employer B has a short plan year from June 1 – December 31.
A: \$1,925 (7/12 months x \$3,300)

Example 2 - DCAPs

- Susan works for Employer A, who offers a DCAP on a calendar year plan. For the 2025 plan year, how much can Susan contribute to her DCAP?
A: \$5,000
- Same facts as above, but Susan's spouse Charlie works for Employer B, who also offers a calendar year DCAP, and Charlie contributes \$4,000 to his DCAP.
A: \$1,000
- All the same facts as above, but Employer A's DCAP is on a June – May 31 plan year.
A: \$1,000 – for June through December 2025 at least

Example 3 - DCAPs

- Ruth gets hired in January 2024 by Employer A, who offers a DCAP on a July 1- June 30 plan year. Ruth enrolls in the DCAP upon hire, and elects \$5,000, all of which is reimbursed by the end of the plan year. How much can Ruth contribute to the DCAP in the upcoming 2024 plan year?
A: \$5,000, but she cannot spend any of it until 2025.
- How much should be deducted at the beginning of the plan year?
A: \$416.67/month – or another amount by plan design
- Ruth works for Employer A, who offers a DCAP on an April 1 – March 31 plan year. Ruth enrolls for the 2025 plan year, and elects to make a full \$5,000 contribution. Ruth gets reimbursed for a \$3,000 claim in November 2025, and a \$2,000 claim in March 2026. How much can she contribute for the 2026 plan year?
A: \$5,000 – but she can only receive up to \$3,000 in tax-favored reimbursements for the rest of 2026

Example 4 - HSAs

- Maria works for Employer A, who has a calendar year qualified HDHP. Maria (who was not previously enrolled) enrolls in self-only HDHP coverage for the 2025 plan year and is otherwise HSA-eligible. How much can she contribute to her HSA for the 2025 plan year?
A: \$4,300
- Instead of enrolling in the HDHP at open enrollment, Maria adopts a child and enrolls in family-level HDHP coverage as of April 1, 2025. How much can she contribute to her HSA for the 2025 plan year?
A: \$6,412.50 (9/12 months x \$8,550); or \$8,550 under full contribution rule

Example 5 - HSAs

- Maria works for Employer A, who offers a HDHP has a May 1 – April 30 plan year. She first enrolls in the HDHP for the 2024 plan year. How much can she contribute in the 2024-2025 plan year?
- A. \$4,150 – 2024 maximum for single coverage
- B. \$4,300 – 2025 maximum for single coverage
- C. $\$4,200 - (8/12)(\$4,150) + (4/12)(\$4,300)$
- D. \$2,766.67 for 2024 and \$1,433.33 for 2025

Example 6 - HSAs

- Maria is HSA-eligible; she and her children are enrolled in her employer's HDHP. Her husband Sam is also HSA-eligible and is enrolled in his own employer's HDHP. How much can Sam and Maria each contribute to their HSAs for 2025?
A: No more than \$8,550 combined
- Same facts as above, but Maria is 53 and Sam is 57.
A: No more than \$8,550 combined, but Sam also gets to make the \$1,000 catch-up contribution into his HSA

Questions?

Inter sure

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