COMPLIANCE ALERT

Mid-Year Annual Contribution Limits

EPIC Insurance Brokers & Consultants

October 2, 2023

Quick Facts

- Spending accounts are governed by different contribution rules.
- The maximum annual contribution amount varies when an individual enters the plan mid-year.

Background

Employers often ask about different rules surrounding annual contribution limits for health flexible spending accounts (HFSAs), dependent care assistance programs (DCAPs) and health savings accounts (HSAs) when an employee joins the employer's plan mid-plan year. The different contribution rules that apply are discussed in more detail below.

Health Care FSAs

When an employee joins an HFSA mid-plan year, they may elect to make up to the full annual contribution limit ($3,050 for 2023). This is true even if the individual previously contributed to an HFSA under another employer's plan during the same plan year since the annual contribution limits apply on a per-plan basis.

Example: Denise was hired by Employer A on May 6. Employer A offers an HFSA that runs on a calendar year. Denise elects to contribute $3,050 to the HFSA. Denise's coverage takes effect on June 1. Since Denise is permitted to make a full annual election for her HFSA even though she has joined mid-plan year, she will be able to make contributions of $254.16/month to her HFSA for each of her seven months of coverage. Because of the "uniform contribution rule," Denise's full annual contribution election amount will be available for reimbursement of claims beginning on June 1, even though Denise has not yet contributed that amount to her HFSA.

Note that if the employer offers a short plan year for all participants (e.g., due to changing plan years or an acquisition), the employer is required to pro-rate the annual contribution limit accordingly.

Health Savings Accounts

HSA contribution maximums are determined on a calendar year basis and are generally calculated on a monthly basis for each month that an individual has qualified high deductible health plan (HDHP) coverage in place. (An individual is considered to have HDHP coverage for any month in which the HDHP was in effect as of the first of the month.) Therefore, if an individual has HDHP coverage in place for five months of the calendar year and is HSA-eligible for those five months, they may establish an HSA and contribute 1/12 of the annual statutory maximum for their applicable tier of coverage for each of those five months.

Example: Jose is hired by Employer B on June 13, 2023. He enrolls in single coverage under an HSA-compatible HDHP, and coverage takes effect on August 1. Jose remains enrolled in the HDHP for the remainder of the calendar year. He may contribute 1/12 of $3,850 (for 2023) for each of the five months of coverage, a total of $1604.16.

The monthly contribution rule applies unless an individual wishes to take advantage of what is known as the “full contribution,” or “last month,” rule. This rule permits somebody who is HSA-eligible as of December 1 of a given calendar year to make a full year’s contribution to their HSA for their applicable tier of HDHP coverage ($3,850 for single and $7,750 for family in 2023), even if they were not HSA eligible for the entire year. This is true if the individual commits to remaining HSA-eligible for all of December and the **following calendar year** (known as the 13-month “testing period”).

Example: In the scenario above, instead of making pro-rated monthly contributions to his HSA for August through December, Jose could elect to make a full contribution of $3,850 for the calendar year as long as he commits to remaining HSA-eligible for the remainder of December 2023 and all of 2024.

Note that if Jose had been covered under an HDHP and contributed to an HSA in 2023, prior to joining Employer B’s plan, he would have to adjust his contributions accordingly since the annual HSA contribution applies to the individual regardless of how many plans they are covered under.

Dependent Care Assistance Programs

DCAP contributions apply on a calendar year basis and apply per family, rather than per plan. An individual who enrolls in a DCAP midyear may be able to make the full allowable contribution as long contributions are not made to another employer’s DCAP for the same calendar year (e.g., as long as a spouse isn’t also contributing to an employer’s DCAP, or as long as the individual wasn’t previously contributing to another employer’s DCAP during the calendar year).

The maximum calendar year contribution for a DCAP per household (i.e., both individuals and spouses who are married and filing jointly) is $5,000. This means that if spouses work at separate employers, they may only contribute a combined total of $5,000 to their respective DCAPs per calendar year.

Example 1: Andrea switches jobs midyear. Andrea files her taxes jointly with her spouse, but he does not contribute to a DCAP. Under her previous employer, she had participated in a DCAP and had contributed a total of $2,400 to the plan. She joins her new employer’s DCAP and may contribute an additional $2,600 to the DCAP for the remainder of the calendar year.

Example 2: Same facts as Example 1, except that Andrea had not contributed to a DCAP with her previous employer. Andrea may elect the full $5,000 to contribute to her DCAP with her new employer for the remainder of the calendar year.

Example 3: Same facts as Example 2, except Andrea’s spouse also participates in a DCAP and contributes $3,000 to that DCAP for the calendar year. When Andrea joins her new employer’s DCAP, she may contribute up to $2,000 for the calendar year assuming her spouse does not contribute any additional amounts to their DCAP.

Summary

Employers should take care to make sure that they are applying the different annual contribution rules correctly when a plan participant joins an employer plan midyear.

EPIC Employee Benefits Compliance Services

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