Health Care Reform

Simplifying Reform - IRS Limits for 2014

The Internal Revenue Service announced higher limits for 2014 on contributions to health savings accounts (HSAs) and for out-of-pocket spending under high-deductible health plans (HDHPs) linked to them.

Background

In **Revenue Procedure 2013-25,** issued May 2, 2013, the IRS provided the inflation-adjusted HSA contribution and HDHP minimum deductible and out-of-pocket limits, effective for calendar year 2014. The higher rates reflect a cost-of-living adjustment and rounding rules under Internal Revenue Code Section 223. Of special note, maximum deductible requirements have been removed, which allow the maximum deductible to be consistent with the out-of-pocket maximum. **A comparison of the 2014 and 2013 limits is shown below:**

Contribution and Out-of-Pocket Limits for Health Savings Accounts and for High-Deductible Health Plans

	For 2014	For 2013	
HSA contribution limit (employer + employee)	Individual: $3,300 Family: $6,550	Individual: $3,250 Family: $6,450	Individual: +$50 Family: +100
HSA catch-up contributions (age 55 or older)*	$1,000	$1,000	No change**
HDHP minimum deductibles	Individual: $1,250 Family: $2,500	Individual: $1,250 Family: $2,500	No change
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Individual: $6,350 Family: $12,700	Individual: $6,250 Family: $12,500	Individual: +$100 Family: +$200

* Catch-up contributions can be made any time during the year in which the HSA participant turns 55.

** Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.

The increases in contribution limits and out-of-pocket maximums from 2013 to 2014 were somewhat lower than the increases a year earlier, reflecting the government's calculation of a more modest inflation rate. From 2012 to 2013 the contribution limit rose $150 for individual coverage and $200 for family plans, while maximum out-of-pocket amounts rose $200 for individuals and $400 for families, and HDHP minimum deductible amounts rose $50 for individuals and $100 for families.

Penalties for Non-qualified Expenses

Those under age 65 (unless totally and permanently disabled) who use HSA funds for nonqualified medical expenses face a penalty of 20 percent of the funds used for such expenses. Funds spent for nonqualified purposes are also subject to income tax.

Coverage of Adult Children

While the Patient Protection and Affordable Care Act allows parents to add their adult children (up to age 26) to their health plans, the IRS has not changed its definition of a dependent for health savings accounts. This means that an employee whose 24-year-old child is covered on his HSA-qualified high-deductible health plan is not eligible to use HSA funds to pay that child's medical bills.

If account holders can't claim a child as a dependent on their tax returns, then they can't spend HSA dollars on services provided to that child. According to the IRS definition, a dependent is a qualifying child (daughter, son, stepchild, sibling or stepsibling, or any descendant of these) who:

- Has the same principal place of abode as the covered employee for more than one-half of the taxable year.
- Has not provided more than one-half of his or her own support during the taxable year.
- Is not yet 19 (or, if a student, not yet 24) at the end of the tax year or is permanently and totally disabled.