

## Surprise HSA Limit Reduction May Require Employer Action

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Employers should consider steps to address employee health savings account contributions after a surprising IRS decision this week.

The IRS on Monday released [Revenue Procedure 2018-18](#), which reduces the previously announced 2018 contribution limit for a health savings account (HSA) of an individual enrolled in family coverage under a high deductible health plan. The newly announced limit, including employee and employer contributions, is \$6,850, a reduction of \$50 from the \$6,900 limit announced in late 2017. The change follows on recently enacted tax reform legislation requiring a new method of calculating inflation adjustments for many Internal Revenue Code provisions beginning in 2018. The 2018 HSA contribution limit for an individual with self-only coverage remains unchanged from the amount previously announced, \$3,450.

Many employer sponsors of high deductible health plans facilitate employee HSA contributions through payroll deductions from employees' compensation spread evenly throughout the year. Employees with family coverage who elected to contribute an amount, which combined with any employer contribution, exceeds the new limit face potential penalties unless they make appropriate adjustments in their contribution level. An employee also could make a timely withdrawal of any excess contribution. While various groups have approached the IRS requesting transition relief to minimize the disruption in payroll and other administrative functions resulting from this change, it is uncertain whether any such relief is coming.

To avoid having excess amounts contributed to employees' HSA accounts, employers may want to identify employees who have elected to maximize their annual HSA contribution amount through payroll deductions that together with employer contributions will exceed the new \$6,850 limit. It appears that an employer can unilaterally make adjustments to benefit enrollment elections and payroll deductions to the extent necessary to avoid an excess contribution. If an employee has already made a 2018 HSA contribution higher than the newly announced limit, absent transition relief that would permit the funds to remain in the account without penalty - which seems unlikely - the amount of the excess and any earnings thereon should be withdrawn from the account.

If you have questions about the change, please [reach out to me](#) or anyone in the [Employment Benefits Practice Group](#).