How to fund your HSA with benefits that start midyear

How much you can contribute to your Health Savings Account (HSA) depends on your eligibility. You need to have an HSA-eligible high-deductible health plan (HDHP). But when your plan starts makes a difference.

Is one of the following true for you?

Did you start a new job and elect an HDHP with an HSA during the year? Enroll in Medicare and drop HDHP coverage? Or do you work for an employer like a school district or government agency with benefits that start midyear?

You may need to change, or prorate, your HSA contributions.

Use the HSA Contribution Calculator or read on for detailed instructions!

Prorating contributions

HSA contribution limits are set by the IRS and valid for the calendar year. And your contributions (no matter where they come from) must be prorated by the number of months you're eligible to contribute to your HSA. You're eligible if you're covered by an HDHP on the first of the month.

You're also eligible to contribute the full annual amount to your HSA if you're eligible on Dec. 1. But only if you keep your HDHP through Dec. 31 of the next year. This is called the last-month rule.

So how do you figure your personal contribution limit?

To prorate your contribution, divide the limit (either single or family coverage) by 12 and multiply it by the number of months you qualify that year. Here's an example:

On July 1 of this year, you're covered by an HDHP. That's six months.

$_____________________ ÷ 12 x 6 = $____________________

IRS contribution limit *Your personal contribution limit*

(And, again, it's 12 months — the full year — if you're eligible to contribute on Dec. 1 and keep your HDHP through Dec. 31 the next year!)

You're also eligible to contribute if you changed coverage midyear. So if you changed from single to family coverage on July 1, you could contribute the family maximum for the full year. But again, only if you keep that coverage through Dec. 31 of the next year.

Or if you did the reverse, and moved to single coverage, you could contribute more than the single maximum but less than the family. Here's how:

Divide the single contribution limit by 12 and multiply it by the number of months you'll have single coverage. Then do the same for family coverage. Add both totals:

($_________ ÷ 12 x 6) + ($_________ ÷ 12 x 6) = $__________

IRS single coverage contribution limit *IRS family coverage contribution limit* *Your personal contribution limit*

Catch-up contributions

If you're 55 or older, you can also make up to a $1,000 catch-up contribution on top of your HSA plan maximum. Prorating and the last-month rule both apply, so you need to be eligible to contribute for 12 months.

So if you enroll in Medicare on July 1, divide the catch-up contribution by 12 and multiply that by the number of months you qualify that year. Here's an example:

$1,000 ÷ 12 x 6 = $500

Updating contributions

If you have payroll deduction, contact your employer about contribution changes.

Overcontribute? You have until that year's tax deadline to correct it.

HSA Bank doesn't provide legal or tax advice. Contact a tax professional or review IRS Publication 969 for tax-related details.

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