



2021 Inflation Adjustments

Following announcements by both the Internal Revenue Service and the Social Security Administration, we know most of the dollar amounts that employers will need to administer their benefit plans for 2021. The key dollar amounts for retirement plans and individual retirement accounts (“IRAs”) are shown on the [front side](#) of our 2021 limits card.

The [reverse side](#) of the card shows a number of dollar amounts that employers will need to know in order to administer health flexible spending accounts (“FSAs”), health savings accounts (“HSAs”), and high-deductible health plans (“HDHPs”), as well as health plans that are not grandfathered under the Affordable Care Act.

Some of the new numbers are higher than their 2020 counterparts. For instance, the Section 415 limit on annual additions to a participant’s account will increase from \$57,000 to \$58,000, and the annual compensation limit will increase from \$285,000 to \$290,000. However, the annual 401(k), 403(b), or 457(b) deferral limit will remain at \$19,500, and the annual retirement plan catch-up contribution limit also will remain at \$6,500.

The annual compensation threshold used to identify highly compensated employees (“HCEs”) remains \$130,000 for 2021. Since the 2021 limit will not become relevant until 2022 when employers “look back” at their employees’ 2021 compensation, employers should consider their employees’ 2020 compensation (for which the limit also was \$130,000) when identifying HCEs for 2021, as well as 5% owners during either 2020 or 2021.

The annual limit on IRA contributions (whether traditional or Roth) will remain the same at \$6,000, including the annual limit on IRA catch-up contributions which will remain at \$1,000. The Social Security taxable wage base (important for retirement

plans that are “integrated” with Social Security) will increase from \$137,700 to \$142,800.

The maximum contribution to an HSA will increase slightly from \$3,550 to \$3,600 for *individual* coverage, and from \$7,100 to \$7,200 for *family* coverage. The maximum HSA catch-up contribution will remain at \$1,000.

The minimum deductible for any HDHP (which must accompany any HSA) will remain at \$1,400 for *individual* coverage, and at \$2,800 for *family* coverage. For 2021, the limit on total annual HDHP out-of-pocket expenses (deductibles, co-payments, and other amounts – but not premiums) will increase to \$7,000 for *self-only* coverage, and \$14,000 for *family* coverage.

The 2021 maximum out-of-pocket limits for “essential health benefits” provided under all non-grandfathered health plans will increase from \$8,150 to \$8,550 for *individual* coverage, and from \$16,300 to \$17,100 for *family* coverage. Because the out-of-pocket limits for essential health benefits are adjusted using the “premium adjustment percentage” calculated by the Department of Health and Human Services, and the maximum HDHP out-of-pocket expense is adjusted on the basis of the Consumer Price Index, it is not unusual to see a more significant change in the out-of-pocket limits for essential health benefits.

The limit on employee deferrals to health FSAs in 2021 will remain at \$2,750. This limit applies only to salary reduction contributions under a health FSA and *not* to employer contributions. For this purpose, however, any employer FSA contributions that could have been received in cash are treated as salary reduction contributions.

A laminated version of the 2021 limits card is available upon request. To obtain one or more copies, please contact any member of our Employee Benefits Group. You also can contact the Spencer Fane Marketing Department at marketing@spencerfane.com.