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INSURANCE

2021 HSA Contribution Limits and Rules

 6 MINUTE READ | JANUARY 08, 2021**RAMSEY SOLUTIONS**

This will come as no surprise, but the cost of health care is going up. And while that's kind of a bummer, there is a silver lining. There's actually a really helpful way to offset at least a portion of these rising costs. It's called a health savings account, or HSA.

Like the name suggests, an HSA is a savings account for your health. It's money you can set aside just for medical expenses. Simple enough, right?

Well, as with most things involving the federal government, it can get a bit more complicated from there. Once you know if you're eligible for an HSA, there are rules about how much you can contribute and how much you can withdraw each year. But no need to get into the weeds. We're going to break down everything you need to know about HSA contributions.

Are You Eligible for an HSA?

Who Can Get an HSA?

First things first, before you can get an HSA, you need to figure out if you're eligible for one. HSAs are only available to individuals and families with a [high-deductible health plan](#) (HDHP).



[Do you have the right health insurance coverage? You could be saving hundreds!](#)

In 2021, that's a plan with a minimum annual deductible of \$1,400 for individuals and \$2,800 for families. It also has to have a maximum annual out-of-pocket expense of \$6,900 for individuals and \$13,800 for families. (An out-of-pocket maximum means the most you'll pay—on deductibles, copayments, and coinsurance, but not your premium—*before* your health insurance covers 100% of the remaining balance.)¹ If you meet those qualifications, you're in!

If you're enrolled in Medicare or someone else can claim you as a dependent, no dice. The federal government says you're not eligible for an HSA.

HSA Contribution Limits for 2021

Unlike a savings account at your local bank, you can't just keep adding to an HSA. There are limits on what you can contribute each year.

In 2021, the maximum annual contribution an individual can make to an HSA is \$3,600. That's 50 whole big ones more than 2020. But let's take what we can get! For families in 2021, that number is \$7,200. And take note, these numbers include what your employer contributes too.

	Single Coverage	Family Coverage
HSA Contribution Limit for 2020 (Employee + Employer)	\$3,600	\$7,200

Are You Eligible for an HSA?

(Age 55 and Older)			
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So, what's that mean exactly? Why wouldn't you just keep that \$3,600 or \$7,200 in a savings account?

Tax-Free Contributions

One of the most attractive features of an HSA are the [tax-free contributions](#). You can add to your HSA straight from your paycheck by using a pretax payroll deduction. You never touch the money and it drops right into your HSA. Or, say you're self-employed or your employer doesn't offer an HSA, you can make deposits into your HSA and then claim them as tax deductions come tax time. You can't do that with a regular savings account!

But heads up, California and New Jersey residents: these states don't offer deductions for HSA contributions. If you're still unsure or confused, reach out to one of our [Endorsed Local Providers](#) (ELPs) who will walk you through your options based on your state's rules.

Tax-Free Interest

Not only are your contributions tax-free but so is the interest you earn on them. Whether you hit the max annual contribution or not, you'll start earning interest on whatever you

contribute. If you kept that money in a savings account at the bank, you'd be taxed on the interest earned.

Live in California or New Jersey? Your HSA earnings are considered taxable income. And for those of you in Tennessee and New Hampshire, you'll get taxed on your HSA earnings, like dividends and interest, but not on your contributions.

Catch-Up Contributions

There's another little HSA bonus if you're 55 or older by the end of the tax year. It's called a catch-up contribution and it means you can add an additional \$1,000 to your HSA.² That \$1,000 is standard across single or family coverage. (Remember, you can't be enrolled in Medicare and contribute to an HSA.)

HSA Rules for 2021

Are You Eligible for an HSA?

to get all the great benefits of an HSA. Other than the few qualifications you need to meet for eligibility, the majority of the rules for HSAs are around withdrawals and investments. Let's take a look.

Excess Contributions

Yes, you can contribute too much to your HSA. If you go over the limits listed above, expect to pay a 6% tax on the excess contribution.

Don't forget that your employer's contributions count toward your total contribution limit. If you have single coverage and your employer adds \$1,000 into your HSA, then you can only add up to the remaining \$2,600.

HSA Withdrawals

Unlike a savings account where you can use your money for whatever you want, you can only use your HSA contributions for qualifying medical expenses.

If you're under 65 and withdraw your HSA funds for a nonqualifying medical expense (like medically unnecessary cosmetic surgery or a car repair), you're going to get zapped with a 20% early withdrawal penalty, *plus* any income taxes on the money. Ouch! That's *double* the early withdrawal penalty of IRAs and 401(k)s. Nope, no thank you!

Over 65? You can withdraw your funds for any reason without the crazy steep penalty. Keep in mind though that if you use the money for a nonqualifying medical expense, the funds you withdraw will be treated as taxable income.

HSA Investments

If you understand HSA's triple tax-free advantages (contributions aren't taxed going in or out and they grow tax-free) and then stop right there, you're leaving money on the table! HSAs also come fully loaded with some great [investment options](#).

Once you've hit your minimum HSA balance to invest (\$1,000 for many HSA providers), you can take those funds and invest them into good growth stock mutual funds—earning 10-12%—like you would any other investment.

You can also think of an HSA like a health IRA in that at age 65, your HSA will act just like a traditional IRA. At that point you can withdraw those funds for whatever you'd like. But like a traditional IRA, you'll pay taxes on it if you do.

Are You Eligible for an HSA?

to grow tax-free and roll over year-to-year. The interest earned might not be huge—think less than 1%—but it's still a good place to stash funds and earn a little extra for those future medical expenses.

Setting Up Your HSA

If you're just beginning to explore HSAs, the most important things to know are if you're eligible to enroll and how much you can contribute each year. Then you'll definitely want to color in the lines as far as contributions go so you don't get hit with any unnecessary and expensive penalties.

Are you ready to take advantage of tax-free money for qualified medical expenses? [Set up your HSA](#) in 5 minutes and start saving today!



ABOUT THE AUTHOR

Ramsey Solutions

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