

Law &amp; Policy Group

**GRIST**

# Summary of 2021 benefit-related cost-of-living adjustments

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The IRS, Pension Benefit Guaranty Corp. (PBGC), Social Security Administration (SSA), and Centers for Medicare and Medicaid Services (CMS) have issued 2021 cost-of-living adjustments (COLAs) for retirement, health and fringe benefit plans; Medicare; and Social Security and Supplemental Security income (SSI). This GRIST covers the key 2021 COLAs for benefit plans issued in the fall of 2020, as well as the following recently published items: the 2021 limits for retirement plans qualified in Puerto Rico; the IRS's 2021 covered compensation tables; and the 2021 play-or-pay monthly contribution limit for noncalendar-year health plans using an affordability safe harbor based on the federal poverty guidelines.

## Retirement plan limits

Employer-sponsored retirement plans may be affected by annual changes to [US](#) and [Puerto Rico](#) qualified plan limits; [covered compensation](#), which is used in safe-harbor plan designs and nondiscrimination testing; and [PBGC premiums, guaranteed benefits and maximum present value](#). Other retirement-related COLAs may affect employees who are eligible for the [saver's credit](#) or have individual retirement accounts (IRAs), including [traditional and Roth IRAs](#).

## US qualified retirement plan limits

IRS [Notice 2020-79](#) provides qualified retirement plan limits for 2021. After applying the rounding rules in the Internal Revenue Code (IRC), the 1.22% increase in the third-quarter CPI from 2019 to 2020 was enough to raise the 415(c) maximum annual addition and the 401(a)(17) limit on retirement plan compensation for 2021. But many other limits for defined benefit (DB) and defined contribution (DC)

plans — including the 415(b) maximum annuity, the limit on 401(k) and other elective deferrals, and the 414(q) highly compensated employee threshold — will stay the same. The following table shows the qualified retirement plan limits for 2019, 2020 and 2021, along with unrounded 2021 values — calculated by Mercer — to facilitate projections.

IRC retirement plan limit	2021 (not rounded)	2021	2020	2019
Treas. Reg. § 1.401(a)(9)-6 limit on premiums paid for a qualified longevity annuity contract	\$138,838	\$135,000*	\$135,000*	\$130,000*
401(k), 403(b) and eligible 457 plan elective deferrals (and designated Roth contributions)	19,793	19,500	19,500	19,000
414(v)(2)(B)(i) catch-up contributions to plans other than SIMPLE plans	6,598	6,500	6,500	6,000
408(p)(2)(E) SIMPLE plan elective deferrals	13,701	13,500	13,500	13,000
414(v)(2)(B)(ii) SIMPLE plan catch-up contributions	3,299	3,000	3,000	3,000
408(k)(2)(C) SEP plan minimum compensation	658	650	600	600
415(b) DB plan maximum annuity	233,808	230,000	230,000	225,000
415(c) DC plan maximum annual addition	58,452	58,000	57,000	56,000
401(a)(17) and 408(k)(3)(C) compensation	292,260	290,000	285,000	280,000
401(a)(17) compensation for eligible participants in certain governmental plans in effect July 1, 1993	431,740	430,000	425,000	415,000
414(q)(1)(B) highly compensated employee (HCE) and 414(q)(1)(C) top-paid group	132,056	130,000	130,000	125,000
416(i)(1)(A)(i) officer compensation for top-heavy plan key employee definition	189,969	185,000	185,000	180,000
Treas. Reg. § 1.61-21(f)(5) control employee for fringe benefit valuations				
Officer compensation	117,610	115,000	115,000	110,000
Employee compensation	235,220	235,000	230,000	225,000
409(o)(1)(C) tax-credit ESOP limits for lengthening the distribution period				
Five-year maximum balance	1,169,040	1,165,000	1,150,000	1,130,000
One-year extension	233,808	230,000	230,000	225,000

IRC retirement plan limit	2021 (not rounded)	2021	2020	2019
432(e)(9)(H)(v) systemically important multiemployer plan (billions)	\$1.176 B	\$1.176 B	\$1.135 B	\$1.097 B
664(g)(7) qualified gratuitous transfer of employer securities to an ESOP	53,463	50,000	50,000	50,000

\* The regulation calls for rounding the increased limit down to the nearest \$10,000, so the limit should have remained \$125,000 until the unrounded number reached \$135,000. However, IRS published the 2018 limit as \$130,000. In [Notice 2018-83](#), IRS said that the next increase will be to \$135,000, after which the limit will be adjusted only in increments of \$10,000.

## Puerto Rico qualified retirement plan limits

On Jan. 20, 2021, the Puerto Rico (PR) Treasury [announced](#) 2021 limits for PR-only plans and dual-qualified plans. The PR tax code aligns its annual limits for compensation, contributions and benefits with the US qualified plan limits, but pretax elective deferral limits for PR-only plans and catch-up contribution limits for both PR-only and dual-qualified plans are lower than the parallel US limits and aren't indexed for inflation after 2013 (2012 for catch-up contributions). Puerto Rican participants' elective deferrals (excluding catch-ups) to dual-qualified plans, when added to deductible IRA contributions, may not exceed the sum of the elective deferral limit for PR-only plans plus the contribution limit for PR IRAs. The table below shows the annual limits for PR-only and dual-qualified plans, but doesn't address Puerto Rican employees of the US government.

PR Code retirement plan limit	2021	2020	2019
1081.01(d)(7)(A)(i) elective deferral — PR-only plans	\$15,000*	\$15,000*	\$15,000*
1081.01(d)(7)(A)(ii) elective deferral — dual-qualified plans	19,500 <sup>†</sup>	19,500 <sup>†</sup>	19,000 <sup>†</sup>
1081.01(d)(7)(A)(iii) combined limit on elective deferrals (other than catch-up contributions) to dual-qualified plans and deductible IRA contributions	20,000*	20,000*	20,000*
1081.01(d)(7)(C)(i) catch-up contributions to both PR-only and dual-qualified plans	1,500*	1,500*	1,500*
1081.01(a)(12) annual compensation limit	290,000	285,000	280,000
1081.01(a)(11)(A)(i) DB maximum annuity	230,000	230,000	225,000
1081.01(a)(11)(B)(i) DC maximum annual addition	58,000 <sup>§</sup>	57,000 <sup>§</sup>	56,000 <sup>§</sup>
1081.01(d)(3)(E)(iii)(IV) HCE threshold	130,000	130,000	125,000

\* Limit is set by statute and is not indexed for inflation.

<sup>†</sup> Participants age 75 or older may be subject to a \$15,000 limit because their IRA limit is zero.

<sup>§</sup> The 1081.01(a)(15) cumulative cap on after-tax contributions is 10% of aggregate pay while participating.

## Covered compensation

Qualified DB pension plans use covered compensation to determine “permitted disparity” under Section 401(l) design-based safe-harbor rules and “imputed disparity” under Section 401(a)(4) general nondiscrimination testing rules. Covered compensation is the average Old Age, Survivors and Disability Insurance (OASDI) contribution and benefit base for the 35 years ending with the year the employee reaches Social Security retirement age. IRS rounds Social Security retirement ages up to the next higher integer for covered compensation purposes, even though the actual Social Security full retirement age increases in two-month increments. Qualified plans have the option to determine permitted or imputed disparity using either actual or rounded covered compensation.

IRS published 2021 covered compensation tables on Jan. 15, 2021, reflecting the increase in the taxable wage base to \$142,800 for 2021 from \$137,700 for 2020. The published tables confirm Mercer’s projections. The next table shows covered compensation amounts for individuals who have already reached Social Security full retirement age. (At that age, covered compensation becomes fixed and is no longer affected by annual changes in the OASDI contribution and benefit base.)

Year born	Social Security full retirement		Covered compensation	
	Age	Year	Not rounded	Rounded
1920	65	1985	\$12,276	\$12,000
1921	65	1986	13,368	12,000
1922	65	1987	14,520	15,000
1923	65	1988	15,708	15,000
1924	65	1989	16,968	18,000
1925	65	1990	18,312	18,000
1926	65	1991	19,728	21,000
1927	65	1992	21,192	21,000
1928	65	1993	22,716	24,000
1929	65	1994	24,312	24,000
1930	65	1995	25,920	27,000
1931	65	1996	27,576	27,000
1932	65	1997	29,304	30,000
1933	65	1998	31,128	30,000
1934	65	1999	33,060	33,000
1935	65	2000	35,100	36,000

Year born	Social Security full retirement		Covered compensation	
	Age	Year	Not rounded	Rounded
1936	65	2001	\$37,212	\$36,000
1937	65	2002	39,444	39,000
1938	65 & 2 months	2004	43,992	45,000
1939	65 & 4 months	2005	46,344	45,000
1940	65 & 6 months	2006	48,816	48,000
1941	65 & 8 months	2007	51,348	51,000
1942	65 & 10 months	2008	53,952	54,000
1943	66	2009	56,628	57,000
1944	66	2010	59,268	60,000
1945	66	2011	61,884	63,000
1946	66	2012	64,560	66,000
1947	66	2013	67,308	66,000
1948	66	2014	69,996	69,000
1949	66	2015	72,636	72,000
1950	66	2016	75,180	75,000
1951	66	2017	77,880	78,000
1952	66	2018	80,532	81,000
1953	66	2019	83,244	84,000
1954	66	2020	86,052	87,000

This table shows the 2021 amounts for individuals below Social Security full retirement age, along with 2020 amounts.

Year born	Social Security full retirement		Covered compensation			
	Age	Year	Not rounded		Rounded	
			2021	2020	2021	2020
1955	66 & 2 months	2022	\$91,764	\$91,464	\$93,000	\$90,000
1956	66 & 4 months	2023	94,560	94,116	96,000	93,000
1957	66 & 6 months	2024	97,260	96,684	96,000	96,000

Year born	Social Security full retirement		Covered compensation			
	Age	Year	Not rounded		Rounded	
			2021	2020	2021	2020
1958	66 & 8 months	2025	\$99,876	\$99,144	\$99,000	\$99,000
1959	66 & 10 months	2026	102,432	101,556	102,000	102,000
1960	67	2027	104,928	103,908	105,000	105,000
1961	67	2028	107,364	106,200	108,000	105,000
1962	67	2029	109,704	108,396	111,000	108,000
1963	67	2030	112,044	110,580	111,000	111,000
1964	67	2031	114,324	112,728	114,000	114,000
1965	67	2032	116,544	114,792	117,000	114,000
1966	67	2033	118,668	116,772	120,000	117,000
1967	67	2034	120,672	118,632	120,000	120,000
1968	67	2035	122,580	120,384	123,000	120,000
1969	67	2036	124,356	122,028	123,000	123,000
1970	67	2037	126,012	123,540	126,000*	123,000
1971	67	2038	127,608	124,980	129,000	126,000
1972	67	2039	129,180	126,408	129,000	126,000
1973	67	2040	130,680	127,764	132,000	129,000
1974	67	2041	132,072	129,012	132,000	129,000
1975	67	2042	133,368	130,164	132,000	129,000
1976	67	2043	134,532	131,184	135,000	132,000
1977	67	2044	135,564	132,060	135,000	132,000
1978	67	2045	136,584	132,948	138,000	132,000
1979	67	2046	137,616	133,824	138,000	135,000
1980	67	2047	138,552	134,616	138,000	135,000
1981	67	2048	139,380	135,300	138,000	135,000
1982	67	2049	140,124	135,900	141,000	135,000
1983	67	2050	140,820	136,440	141,000	137,700
1984	67	2051	141,504	136,992	141,000	137,700
1985	67	2052	141,960	137,292	142,800	137,700

Year born	Social Security full retirement		Covered compensation			
	Age	Year	Not rounded		Rounded	
			2021	2020	2021	2020
1986	67	2053	\$142,368	\$137,556	\$142,800	\$137,700
1987	67	2054	142,644	137,700	142,800	137,700
1988+	67	2055+	142,800	137,700	142,800	137,700

\* A previous version of this article incorrectly showed this number as \$123,000.

### PBGC premiums, guaranteed benefits and maximum present value

On Oct. 15, 2020, PBGC announced inflation-adjusted premium rates and the variable-rate premium cap. Since 2020, all premium amounts — including the per-participant variable-rate premium cap — are indexed annually for wage inflation.

On Oct. 16, 2020, PBGC announced that the annual maximum guaranteed benefit starting at age 65 for plans terminating in 2021 will rise to \$72,409 from \$69,750 in 2020. This amount is determined using the Social Security “old law” contribution and benefit base (see Social Security and SSI amounts). The maximum guaranteed benefit is adjusted if benefit payments start before (or after) age 65 or are paid in a form other than a single-life annuity. Some of the guaranteed amount may be paid from the plan’s assets, and participants may receive more if the plan is better funded or PBGC can recover other amounts from the plan sponsor.

PBGC amount	2021	2020	2019
Flat-rate premium — single-employer plans	\$86	\$83	\$80*
Flat-rate premium — multiemployer plans	31	30	29
Variable-rate premium per \$1,000 of unfunded vested benefits	46	45	43
Per-participant variable-rate premium cap	582	561	541
Annual maximum guaranteed benefit (payable as a single-life annuity starting at age 65)	72,409	69,750	67,295

\* Value set by statute

On Oct. 26, 2020, PBGC announced the 2021 present values of the PBGC maximum guarantee, which are used to administer Section 436 restrictions on lump sums and other accelerated payments. The present values will increase significantly from 2020 levels (12% at age 65 and more than 35% at the earliest ages), mainly because the August 2020 417(e) lump sum segment rates (0.52%, 2.22% and

3.03%) used to determine the 2021 present values are much lower than the August 2019 rates (2.09%, 3.00% and 3.61%) used to determine the 2020 present values.

Plans at least 60% but less than 80% funded may only pay lump sums (or other accelerated distributions) up to the lesser of (i) 50% of the present value of the benefit otherwise payable or (ii) the present value of the participant's PBGC maximum guarantee. Plans subject to the restrictions must use the 2021 table for annuity starting dates in 2021, regardless of the plan year.

The next table shows the present values for 2021 and the two prior years. The [full table](#) of present values for every year back to 2008 is available on the PBGC website, along with a downloadable [Excel table](#).

Present value of PBGC maximum guarantee				Present value of PBGC maximum guarantee			
Age	2021*	2020†	2019‡	Age	2021*	2020†	2019‡
25	\$312,953	\$227,914	\$146,755	56	\$861,626	\$734,107	\$593,319
26	322,514	236,193	153,328	57	891,196	763,193	621,513
27	332,367	244,772	160,195	58	921,538	793,333	651,113
28	342,523	253,664	167,371	59	952,725	824,609	682,226
29	352,993	262,881	174,868	60	984,837	857,118	714,974
30	363,787	272,436	182,704	61	1,022,944	893,387	752,033
31	374,917	282,341	190,892	62	1,061,192	930,697	790,578
32	386,394	292,611	199,450	63	1,099,682	969,175	830,761
33	398,232	303,261	208,395	64	1,138,552	1,008,989	873,205
34	410,441	314,304	217,744	65	1,177,804	1,050,190	916,704
35	423,033	325,755	227,517	66	1,259,089	1,124,309	983,450
36	436,020	337,629	237,732	67	1,344,382	1,202,280	1,053,885
37	449,412	349,940	248,409	68	1,443,188	1,292,654	1,135,566
38	463,224	362,708	259,569	69	1,553,281	1,393,511	1,226,893
39	477,469	375,947	271,236	70	1,672,416	1,502,901	1,326,224
40	492,162	389,678	283,433	71	1,881,892	1,694,086	1,498,432
41	507,320	403,921	296,185	72	2,070,996	1,867,664	1,655,933
42	522,957	418,694	309,520	73	2,239,596	2,023,451	1,798,482
43	539,093	434,021	323,464	74	2,387,670	2,161,349	1,925,892



Age	Present value of PBGC maximum guarantee			Age	Present value of PBGC maximum guarantee		
	2021*	2020†	2019‡		2021*	2020†	2019‡
44	\$555,748	\$449,927	\$338,051	75	\$2,515,318	\$2,281,345	\$2,038,048
45	572,942	466,437	353,311	76	2,939,144	2,671,083	2,392,451
46	597,048	487,603	370,902	77	3,314,077	3,017,919	2,710,267
47	621,531	509,324	389,213	78	3,640,928	3,322,352	2,991,641
48	646,402	531,619	408,278	79	3,920,868	3,585,157	3,236,989
49	671,676	554,512	428,136	80	4,155,461	3,807,542	3,447,042
50	697,369	578,029	448,826	81	5,174,996	4,751,490	4,313,277
51	723,498	602,197	470,395	82	6,059,695	5,575,176	5,074,660
52	750,075	627,041	492,884	83	6,816,572	6,284,334	5,735,475
53	777,134	652,603	516,353	84	7,450,520	6,882,581	6,298,126
54	804,708	678,925	540,861	85	7,971,207	7,378,136	6,769,186
55	832,835	706,056	566,477				

\* Present value determined using August 2020 lump sum segment rates of 0.52%, 2.22% and 3.03%.

† Present value determined using August 2019 lump sum segment rates of 2.09%, 3.00% and 3.61%.

‡ Present value determined using August 2018 lump sum segment rates of 3.10%, 4.15% and 4.46%.

## Saver's credit

Notice 2020-79 provides adjusted gross income (AGI) levels at which a “saver’s credit” is available for employee contributions to a qualified retirement plan or IRA. All AGI levels rose due to the increase in the average chained CPI for the 12 months ending Aug. 31, 2020.

Saver's credit AGI limits (IRC § 25B)	2021	2020	2019
<b>50% saver's credit if AGI is no more than specified amount</b>			
Married filing jointly	\$39,500	\$39,000	\$38,500
Head of household	29,625	29,250	28,875
Other filing status	19,750	19,500	19,250

<b>Saver's credit AGI limits (IRC § 25B)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>20% saver's credit if AGI exceeds limit for 50% credit but is no more than specified amount</b>			
Married filing jointly	\$43,000	\$42,500	\$41,500
Head of household	32,250	31,875	31,125
Other filing status	21,500	21,250	20,750
<b>10% saver's credit if AGI exceeds limit for 20% credit but is no more than specified amount</b>			
Married filing jointly	66,000	65,000	64,000
Head of household	49,500	48,750	48,000
Other filing status	33,000	32,500	32,000

### Traditional and Roth IRA limits

Maximum 2021 deductions for traditional IRA contributions remain unchanged after rounding. AGI phase-out thresholds for Roth IRA contributions and a qualified plan participant's deductible traditional IRA contributions will increase in 2021 due to the increase in the average chained CPI for the 12 months ending Aug. 31, 2020. The catch-up contribution limit and AGI thresholds for married taxpayers filing separately aren't adjusted for cost-of-living changes. The next table summarizes the 2021 IRA limits announced by IRS, along with the limits for the previous two years.

<b>Traditional and Roth IRA limits</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Traditional IRA deduction limits (IRC §§ 219(b)(5) and 219(g)(3)(B))</b>			
IRA maximum deductible amount	\$6,000	\$6,000	\$6,000
IRA catch-up contribution limit*	1,000	1,000	1,000
Modified AGI threshold for determining deductible IRA contributions for active participants in qualified plans			
Married filing jointly or qualifying widow(er)	105,000	104,000	103,000
Married filing separately*	0	0	0
Single or head of household	66,000	65,000	64,000
Spouse (but not taxpayer making IRA contribution) is active participant	198,000	196,000	193,000

Traditional and Roth IRA limits	2021	2020	2019
<b>Roth IRA contribution limits (IRC § 408A(c)(3)(C)(ii))</b>			
AGI for determining maximum Roth IRA contribution			
Married filing jointly or qualifying widow(er)	\$198,000	\$196,000	\$193,000
Married filing separately*	0	0	0
Other filing status	125,000	124,000	122,000
* Limit is not adjusted for cost-of-living changes.			

## Health and fringe benefit limits

Every fall, IRS updates the annual Code limits for certain health and fringe benefits, including health flexible spending arrangements (FSAs), qualified small-employer health reimbursement arrangements (QSEHRAs), Archer medical savings accounts (MSAs), qualified long-term care (LTC) policies and qualified transportation fringe and adoption assistance benefits. COLAs for health savings accounts (HSAs), high-deductible health plans (HDHPs) and excepted-benefit HRAs are announced earlier in the year. Annually adjusted limits also apply to certain ACA cost-sharing features of nongrandfathered group health plans, shared-responsibility assessments and individual eligibility for premium tax credits.

### Health FSA, excepted-benefit HRA, QSEHRA, Archer MSA and LTC limits

IRS Rev. Proc. 2020-45 gives the 2021 limits for salary-reduction contributions to health FSAs; Archer MSAs; QSEHRAs; and qualified LTC policies, transportation fringe and adoption assistance benefits. The limits reflect the increase in the average chained CPI for the 12 months ending Aug. 31, 2020, except for the qualified LTC premium and per diem limits, which reflect the increase in only the medical care component. After applying the Code's rounding rules, almost all limits have increased from 2020 except the health FSA maximum salary reduction contribution and carryover amount.

On Oct. 16, 2020, IRS announced the 2021 maximum employer contribution for excepted-benefit HRAs, which employers were first allowed to offer in 2020. In future years, IRS intends to publish the following year's limit by June 1. The limit reflects the increase in the average chained CPI for the 12 months ending March 31, 2020. After applying the Code's rounding rule, the limit has not changed.

Health FSA, excepted-benefit HRA, QSEHRA, Archer MSA and LTC limits	2021	2020	2019
<b>Health FSA limit (IRC § 125(i))</b>			
Maximum salary reduction contribution	\$2,750	\$2,750	\$2,700
Maximum carryover*	550	550	500

<b>Health FSA, excepted-benefit HRA, QSEHRA, Archer MSA and LTC limits</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Excepted-benefit HRA limit (26 CFR § 54.9831-1(c)(3)(viii)(B)(1))</b>			
Maximum employer contribution	\$1,800	\$1,800	N/A
<b>QSEHRA limit (IRC § 9831(d))</b>			
Maximum annual benefit			
Self-only coverage	5,300	5,250	5,150
Family coverage	10,700	10,600	10,450
<b>Archer MSA limits (IRC § 220(c)(2))</b>			
Self-only coverage			
Minimum annual deductible	2,400	2,350	2,350
Maximum annual deductible	3,600	3,550	3,500
Maximum out-of-pocket limit	4,800	4,750	4,650
Family coverage			
Minimum annual deductible	4,800	4,750	4,650
Maximum annual deductible	7,150	7,100	7,000
Maximum out-of-pocket limit	8,750	8,650	8,550
<b>Qualified LTC policy limits (IRC § 213(d) and 7702B(d)(4))</b>			
Premium limits at age:			
40 or younger	450	430	420
41-50	850	810	790
51-60	1,690	1,630	1,580
61-70	4,520	4,350	4,220
Older than 70	5,640	5,430	5,270
Per diem limit	400	380	370

\* Notice 2020-33 increased the limit on 2020 carryovers to the 2021 plan year, with future carryovers capped at 20% of the limit on employee pretax contributions to a health FSA for a plan year.

### Qualified transportation fringe and adoption assistance benefits

The next table shows the 2021 adjusted figures for qualified transportation fringe and adoption assistance benefits set by Rev. Proc. 2020-45, along with 2020 and 2019 amounts. The limits reflect the increase in the average chained CPI for the 12 months ending Aug. 31, 2020. After applying the Code's

rounding rules, all adoption assistance figures have increased since 2020, but transportation benefit limits remain unchanged.

Qualified transportation and adoption assistance limits	2021	2020	2019
<b>Tax-free qualified transportation fringe benefits (IRC § 132(f))</b>			
Monthly qualified parking, transit passes or commuter highway vehicle	\$270	\$270	\$265
<b>Qualified adoption assistance benefits (IRC § 137)</b>			
Exclusion for child with special needs (regardless of expenses incurred)	14,440	14,300	14,080
Aggregate dollar limit for all tax years (child without special needs)	14,440	14,300	14,080
Phaseout begins at modified AGI of	216,660	214,520	211,160
Phaseout completed at modified AGI of	256,660	254,520	251,160

## HSA and HDHP limits

On May 20, 2020, IRS [announced](#) 2021 inflation-adjusted amounts for HSA contributions, HDHP deductibles and maximum HDHP out-of-pocket costs. The limits reflect the increase in the average chained CPI for the 12 months ending March 31, 2020. The HSA contribution limits and HDHP out-of-pocket maximums have risen from 2020 levels, while HDHP minimum annual deductibles are unchanged. The HSA catch-up contribution limit is not indexed. The 2021 HDHP out-of-pocket maximums are lower than the corresponding [ACA limits for nongrandfathered group health plans](#). The following table shows the IRS limits for 2021 and the previous two years.

HSA and HDHP limits (IRC § 223)	2021	2020	2019
Self-only coverage			
Maximum tax-deductible/tax-free HSA contribution	\$3,600	\$3,550	\$3,500
HDHP minimum annual deductible	1,400	1,400	1,350
HDHP out-of-pocket maximum	7,000	6,900	6,750
Family coverage			
Maximum tax-deductible/tax-free HSA contribution	7,200	7,100	7,000
HDHP minimum annual deductible	2,800	2,800	2,700
HDHP out-of-pocket maximum	14,000	13,800	13,500
HSA catch-up contribution limit at age 55 or older	1,000	1,000	1,000

## ACA nongrandfathered group health plan out-of-pocket maximum

The ACA limits annual out-of-pocket costs for essential health benefits under nongrandfathered group health plans (unless they provide only excepted benefits, such as limited-scope dental or vision plans). Annual adjustments to these ACA limits after 2014 reflect increases in the US average per-person health insurance premium since 2013 and differ from the CPI-based adjustments to HDHP maximums.

Nongrandfathered group health plans — including large-group and self-funded ones — with an annual out-of-pocket limit for family coverage exceeding the permitted self-only limit must “embed” individual out-of-pocket limits at or below the ACA limit for self-only coverage. The table below shows the 2019–2021 out-of-pocket limits on essential health benefits published in the annually updated HHS [Notice of Benefit and Payment Parameters](#). The maximums apply on a plan-year basis, so the 2021 limit will apply on the first day of the plan year starting in 2021.

ACA nongrandfathered group health plan out-of-pocket maximums	2021	2020	2019
Self-only coverage (and embedded individual maximum in family coverage)	\$8,550	\$8,150	\$7,900
Family coverage	17,100	16,300	15,800

## ACA employer shared-responsibility assessments

Under the ACA’s employer shared-responsibility requirement, employers must offer most ACA full-time employees some form of health coverage or risk paying one of two IRS assessments. One assessment under Section 4980H(a) applies to employers that don’t offer coverage to nearly all (95%) ACA full-time employees and their dependents. The other assessment under Section 4980H(b) applies to employers sponsoring coverage that either (i) isn’t offered to some ACA full-time employees or (ii) is offered but doesn’t meet ACA’s affordability or minimum-value standards. While the 4980H(a) assessment is calculated based on an employer’s total number of ACA full-time employees, the 4980H(b) assessment applies per ACA full-time employee who receives subsidized coverage from a public exchange. An IRS FAQ ([Q&A-55](#)) provides adjusted dollar amounts used to calculate employer play-or-pay assessments. The next table shows the annual employer play-or-pay shared-responsibility assessments for 2019–2021, though the assessments are incurred and calculated on a monthly basis.

ACA play-or-pay assessments	2021	2020	2019
<b>Employer play-or-pay assessments (IRC § 4980H)</b>			
Not offering coverage (4980H(a))	\$2,700	\$2,570	\$2,500
Offering coverage lacking minimum value or affordability (4980H(b))	4,060	3,860	3,750

## ACA premium tax credit eligibility and play-or-pay affordability percentages

Employers that don't offer affordable, minimum-value health coverage for ACA full-time employees and their children risk play-or-pay assessments if any employee receives a premium tax credit or cost-sharing subsidy for public exchange health coverage. Affordability depends on how much an employee must pay as a percentage of household income for self-only coverage under the lowest-cost employer option with minimum value. Initially set at 9.5% of household income for 2014, this limit is annually indexed to reflect growth in premiums relative to incomes over the past year. Starting in 2018, the limit has an additional adjustment for premium growth in excess of CPI growth.

The 2021 affordability limit is 9.83%, up from 9.78% in 2020 ([Rev. Proc. 2020-36](#)). The table below shows the 2019–2021 limits, which determine an employee's premium tax credit eligibility. The same limit applies to employees' spouses and dependents, though affordability is tied to employee-only rates.

ACA premium tax credit eligibility and play-or-pay affordability percentages for employer coverage	2021	2020	2019
Top % of income for lowest-cost self-only coverage with minimum value	9.83%	9.78%	9.86%

While failure to offer affordable coverage creates the risk of play-or-pay assessments, most employers don't know their employees' household incomes. As a result, a safe harbor definition of affordability for employer play-or-pay assessment purposes limits the employee cost for self-only, minimum-value coverage from an employer to 9.5% (in 2014) of one of three monthly amounts: W-2 wages, rate of pay or the federal poverty line (FPL) for a single individual in the mainland US (48 contiguous states and Washington, DC). This percentage is indexed using the same ACA formula as the household income percentage ([Notice 2015-87](#), [Q&A-12](#)).

For employers using the FPL safe harbor to determine play-or-pay affordability, the next table shows the maximum required employee contribution to satisfy that safe harbor. Note that the amounts in the table apply on a plan-year, not calendar-year, basis. This means noncalendar-year plans will continue to use the 2020 level of \$103.99/month to determine FPL affordability until their 2021 plan years start.

ACA affordable monthly employee contribution limit for play-or-pay FPL safe harbor (48 contiguous states and Washington, DC)	2021	2020	2019
Calendar-year plans	\$104.53	\$101.79	\$99.75
Noncalendar-year plans	105.51	103.99	102.63

## Medicare premiums, coinsurance, deductibles and Rx subsidy

On Nov. 6, 2020, CMS [released](#) the 2021 beneficiary premiums, deductibles and other cost-sharing amounts for Medicare Parts A and B. [Part A](#) monthly premiums will increase approximately 2.8%, while annual deductible and coinsurance amounts will increase approximately 5.4%. The 2021 [Part B](#) annual deductible, standard monthly premium and income-adjusted monthly premiums paid by many individuals will rise. The 2021 [Part D](#) standard monthly premium and income-based premium adjustments drop, while Part D cost-sharing rises slightly.

### Part A — Hospital insurance

Medicare Part A beneficiaries are subject to a deductible for inpatient hospital stays. If hospitalized more than 60 days, beneficiaries also must pay daily coinsurance, which varies by the length of the stay. Beneficiaries who receive services in a skilled nursing facility are subject to separate daily coinsurance.

Although most individuals qualify for premium-free Part A coverage, those who don't have enough quarters of Medicare [covered employment](#) must pay monthly premiums. The Part A premium depends on how many covered quarters a beneficiary has and whether Medicare enrollment is due to age (such as seniors age 65 and older) or disability. The next table shows the Part A deductibles, coinsurance amounts and premiums for 2019–2021. (For more detail on how these amounts are calculated, see the CMS notices on the [Part A premium](#) and [Part A deductible and coinsurance](#).)

Part A — Hospital insurance	2021	2020	2019
Hospital inpatient deductible	\$1,484.00	\$1,408.00	\$1,364.00
Hospital daily coinsurance			
Days 61–90	371.00	352.00	341.00
Lifetime reserve days	742.00	704.00	682.00
Skilled nursing facility daily coinsurance	185.50	176.00	170.50
Monthly premium			
Seniors and certain people with disabilities under age 65 with fewer than 30 quarters of coverage	471.00	458.00	437.00
Seniors with 30–39 quarters of coverage and certain people with disabilities who have at least 30 quarters of coverage	259.00	252.00	240.00



## Part B — Medical insurance

Medicare beneficiaries with Part B coverage pay monthly premiums and an annual deductible. People in higher-income brackets pay higher premiums on a graduated scale that increases with annual income. An annually updated CMS notice on [Part B premiums and deductibles](#) gives details on how these amounts are calculated.

This table shows the Part B annual deductible and standard monthly premium for 2019–2021.

Part B — Medical insurance	2021	2020	2019
Annual deductible	\$203.00	\$198.00	\$185.00
Standard monthly premium	148.50	144.60	135.50

The next table lists the Part B monthly premiums for 2019–2021, including the income-adjusted premiums for higher-income beneficiaries. The AGI thresholds for most Part B income-related monthly adjustment amounts started increasing with inflation in 2020 (the top bracket will be adjusted for inflation starting in 2028).

Part B — Medical insurance monthly premiums					
2021		2020		2019	
Annual income	Monthly premium	Annual income	Monthly premium	Annual income	Monthly premium
<b>Single</b>					
\$0 – \$88,000*	\$148.50	\$0 – \$87,000*	\$144.60	\$0 – \$85,000*	\$135.50
88,001 – 111,000	207.90	87,001 – 109,000	202.40	85,001 – 107,000	189.60
111,001 – 138,000	297.00	109,001 – 136,000	289.20	107,001 – 133,500	270.90
138,001 – 165,000	386.10	136,001 – 163,000	376.00	133,501 – 160,000	352.20
165,001 – 499,999	475.20	163,001 – 499,999	462.70	160,001 – 499,999	433.40
500,000 or more	504.90	500,000 or more	491.60	500,000 or more	460.50

<b>Part B — Medical insurance monthly premiums</b>					
<b>Married filing jointly</b>					
0 – \$176,000*	148.50	0 – \$174,000*	144.60	0 – \$170,000*	135.50
176,001 – 222,000	207.90	174,001 – 218,000	202.40	170,001 – 214,000	189.60
222,001 – 276,000	297.00	218,001 – 272,000	289.20	214,001 – 267,000	270.90
276,001 – 330,000	386.10	272,001 – 326,000	376.00	267,001 – 320,000	352.20
330,001 – 749,999	475.20	326,001 – 749,999	462.70	320,001 – 749,999	433.40
750,000 or more	504.90	750,000 or more	491.60	750,000 or more	460.50
<b>Married filing separately</b>					
0 – 88,000*	148.50	0 – 87,000*	144.60	0 – 85,000*	135.50
88,001 – 411,999	475.20	87,001 – 412,999	462.70	85,001 – 414,999	433.40
412,000 or more	504.90	413,000 or more	491.60	415,000 or more	460.50

\* Income bracket for most beneficiaries.

## Part D — Outpatient prescription drug coverage

Medicare Part D’s outpatient prescription drug coverage requires enrollees to pay premiums, deductibles and copayments, which are indexed each year to reflect changes in Medicare beneficiaries’ average total drug expenses. Annual indexing also applies to the retiree drug subsidy (RDS), which reimburses a portion of retiree drug plan sponsors’ expenses for individuals who are eligible for but not enrolled in a Part D plan. Rather than continue in the RDS program, many employers have turned to employer group waiver plans (EGWPs) for greater cost savings due to ACA provisions.

As required by the ACA, the Part D program charges higher premiums to higher-income enrollees. The usual monthly premium is paid to the plan; the added amount (or “adjustment”) for higher-income beneficiaries is deducted from an enrollee’s Social Security benefits and paid to Medicare. The next two tables summarize 2019–2021 Part D [benefit parameters](#), [RDS benefits](#) and the monthly Part D [premium adjustments](#) for different annual income tiers. The [AGI thresholds](#) for most Part D income-related monthly adjustment amounts started increasing with inflation in 2020 (the top bracket will be adjusted for inflation starting in 2028).

<b>Part D benefits and RDS amounts</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Standard Part D benefit</b>			
Deductible	\$445.00	\$435.00	\$415.00
Initial coverage limit	4,130.00	4,020.00	3,820.00

<b>Part D benefits and RDS amounts</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Standard Part D benefit (cont'd)</b>			
Out-of-pocket threshold	\$6,550.00	\$6,350.00	\$5,100.00
Total covered Part D drug out-of-pocket threshold: out-of-pocket threshold + 75% (initial coverage limit – deductible)	9,313.75	9,038.75	7,653.75
<b>Minimum cost-sharing for catastrophic coverage</b>			
Generic/preferred	3.70	3.60	3.40
Other	9.20	8.95	8.50
<b>Retiree drug subsidy (RDS)</b>			
Cost threshold (Part D deductible)	445.00	435.00	415.00
Cost limit	9,200.00	8,950.00	8,500.00
Maximum subsidy per retiree: 28% x (cost limit – cost threshold)	2,451.40	2,384.20	2,263.80
<b>Monthly Part D premium</b>			
Base beneficiary premiums (national average Part D premium)	33.06	32.74	33.19

<b>Part D income-related monthly adjustment amounts</b>					
<b>2021</b>		<b>2020</b>		<b>2019</b>	
<b>Annual income</b>	<b>Monthly premium</b>	<b>Annual income</b>	<b>Monthly premium</b>	<b>Annual income</b>	<b>Monthly premium</b>
<b>Single</b>					
\$0 – \$88,000*	\$0.00	\$0 – \$87,000*	\$0.00	\$0 – \$85,000*	\$0.00
88,001 – 111,000	12.30	87,001 – 109,000	12.20	85,001 – 107,000	12.40
111,001 – 138,000	31.80	109,001 – 136,000	31.50	107,001 – 133,500	31.90
138,001 – 165,000	51.20	136,001 – 163,000	50.70	133,501 – 160,000	51.40
165,001 – 499,999	70.70	163,001 – 499,999	70.00	160,001 – 499,999	70.90
500,000 or more	77.10	500,000 or more	76.40	500,000 or more	77.40

<b>Part D income-related monthly adjustment amounts</b>					
<b>Married filing jointly</b>					
0 – \$176,000*	0.00	0 – \$174,000*	0.00	0 – \$170,000*	0.00
176,001 – 222,000	12.30	174,001 – 218,000	12.20	170,001 – 214,000	12.40
222,001 – 276,000	31.80	218,001 – 272,000	31.50	214,001 – 267,000	31.90
276,001 – 330,000	51.20	272,001 – 326,000	50.70	267,001 – 320,000	51.40
330,001 – 749,999	70.70	326,001 – 749,999	70.00	320,001 – 749,999	70.90
750,000 or more	77.10	750,000 or more	76.40	750,000 or more	77.40
<b>Married filing separately</b>					
0 – 88,000*	0.00	0 – 87,000*	0.00	0 – 85,000	0.00
88,001 – 411,999	70.70	87,001 – 412,999	70.00	85,001 – 414,999	70.90
412,000 or more	77.10	413,000 or more	76.40	415,000 or more	77.40

\* Income bracket for most beneficiaries.

## Social Security and SSI amounts

On Oct. 13, 2020, the SSA [announced](#) that 2021 benefits will receive a 1.3% cost-of-living increase, reflecting the change in the third-quarter CPI for Urban Wage Earners and Clerical Workers (CPI-W) from 2019 to 2020. Other 2021 Social Security amounts are tied to the 3.7% increase in [average annual wages](#) from 2018 to 2019. The next table shows key Social Security values for 2019–2021 from SSA’s 2021 [fact sheet](#) and [automatic determinations](#) webpage.

<b>Social Security and SSI values</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Cost-of-living increase	1.3%	1.6%	2.8%
Average annual wage (second preceding year)	\$54,099.99	\$52,145.80	\$50,321.89
OASDI contribution and benefit base (wage base)	142,800	137,700	132,900
“Old law” contribution and benefit base	106,200	102,300	98,700
Retirement earnings test exempt amount (annual)			
Under full retirement age (full year)	18,960	18,240	17,640
Year individual reaches full retirement age (period before attaining full retirement age)	50,520	48,600	46,920

<b>Social Security and SSI values</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Wages needed for a quarter of coverage	\$1,470	\$1,410	\$1,360
Disability thresholds (monthly amounts)			
Substantial gainful activity — not blind	1,310	1,260	1,220
Substantial gainful activity — blind	2,190	2,110	2,040
Trial work period	940	910	880
Coverage thresholds for			
Domestic employees	2,300	2,200	2,100
Election workers	2,000	1,900	1,800
Bend-points — PIA formula applied to average indexed monthly earnings (AIME)			
90% of AIME up to	996	960	926
32% of AIME over first bend-point up to	6,002	5,785	5,583
15% of AIME over second bend-point			
Bend-points — maximum family benefit formula applied to worker's PIA			
150% of PIA up to	1,272	1,226	1,184
272% of PIA over first bend-point up to	1,837	1,770	1,708
134% of PIA over second bend-point up to	2,395	2,309	2,228
175% of PIA over third bend-point			
SSI federal payment standard (monthly amounts)			
Individual	794	783	771
Couple	1,191	1,175	1,157
SSI student exclusion limits			
Monthly limit	1,930	1,900	1,870
Annual limit	7,770	7,670	7,550

## Related resources

### Non-Mercer resources

- [CC RI 21-01](#) (Puerto Rico Treasury, Jan. 20, 2021)

- [Rev. Rul. 2021-3](#) (IRS, Jan. 15, 2021)
- [Poverty guidelines for 2021](#) (HHS, Jan. 13, 2021)
- [Medicare Part A premiums for 2021](#) (Federal Register, Nov. 12, 2020)
- [Medicare Part A deductible and hospital and extended care services coinsurance amounts for 2020](#) (Federal Register, Nov. 12, 2020)
- [Medicare Part B monthly actuarial rates, premium rates and annual deductible for 2021](#) (Federal Register, Nov. 12, 2020)
- [2021 Part D income-related monthly premium adjustment](#) (CMS, Nov. 6, 2020)
- [Notice 2020-79](#), 2021 contribution and benefit limits for qualified retirement plans (IRS, Oct. 26, 2020)
- [Rev. Proc. 2020-45](#), 2021 limits for health FSAs; Archer MSAs; QSEHRAs; and qualified LTC policies, transportation fringe benefits and adoption assistance (IRS, Oct. 26, 2020)
- [IRS provides tax inflation adjustments for tax year 2021](#) (IRS, Oct. 26, 2020)
- [Rev. Proc. 2020-43](#), 2021 employer contribution limit for excepted-benefit HRAs (IRS, Oct. 16, 2020)
- [Present value of PBGC maximum guarantee tables and spreadsheet](#) (PBGC, Oct. 26, 2020)
- [Maximum monthly guarantees for single-employer plans in 2021 and earlier years](#) (PBGC, Oct. 16, 2020)
- [Premium rates](#) (PBGC, Oct. 15, 2020)
- [Social Security announces 1.3% benefit increase for 2021](#) (SSA, Oct. 13, 2020)
- [Fact sheet: 2021 Social Security changes](#) (SSA, Oct. 13, 2020)
- [Covered employment for Social Security credits](#) (SSA)
- [National average wage index](#) (SSA)
- [Social Security amounts determined by automatic adjustment, 2011-2021](#) (SSA)
- [Q&As on ACA employer shared-responsibility provisions](#) (IRS, Sept. 24, 2020)
- [Part D premium adjustments for 2021](#) (CMS, July 29, 2020)

- [Rev. Proc. 2020-36](#), maximum income percentage for ACA affordable coverage (IRS, July 21, 2020)
- [Rev. Proc. 2020-32](#), 2021 adjusted amounts for HSAs and HDHPs (IRS, May 20, 2020)
- [HHS notice of benefit and payment parameters for 2021](#) (Federal Register, May 14, 2020)
- [Notice 2020-33](#), Modification of carryover rule for health FSAs and clarification of premium reimbursements by individual-coverage HRAs (IRS, May 12, 2020)
- [Retiree drug subsidy cost threshold and cost limit by plan year](#) (CMS, April 30, 2020)
- [Calendar-year 2021 Part D payment policies](#) (CMS, April 6, 2020)
- [Notice 2015-87](#) (IRS, Dec. 16, 2015)

### **Mercer Law & Policy resources**

- [2021 quick benefit facts](#) (Jan. 21, 2021)
- [2021 health FSA, other health and fringe benefit limits now set](#) (Oct. 27, 2020)
- [2021 Social Security, PBGC amounts and projected covered compensation](#) (Oct. 19, 2020)
- [Mercer projects 2021 IRA and saver's credit limits](#) (Aug. 17, 2020)
- [2021 transportation, health FSA and Archer MSA limits projected](#) (Aug. 14, 2020)
- [Affordable percentage will rise for employer health coverage in 2021](#) (July 22, 2020)
- [Mercer projects 2021 retirement plan limits](#) (July 16, 2020)
- [2021 ACA out-of-pocket maximums, ESR penalties, other changes ahead](#) (June 3, 2020)
- [2021 health savings account, high-deductible health plan figures set](#) (May 20, 2020)

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