

IRS announces 401(k), FSA contribution limits for 2021

Employee contribution limits will remain unchanged next year.

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The IRS isn't increasing employee contribution limits for 401(k)s or flexible spending accounts for 2021, the agency said last week.

Limits will remain the same with employees being able to defer up to \$19,500 into a 401(k), 403(b) and most 457 plans at work. The limits also remain the same for employee catch-up contributions for those 50 and older— \$6,500. Last year saw a \$500 jump in the overall employee contribution limit for 2020 plus a \$500 rise in the catch-up limit.

And for 2021, the dollar limit for employee contributions to flexible spending accounts, made pretax through salary reductions, remains unchanged at \$2,750. For health FSA plans that permit the carryover of unused amounts, the maximum carryover amount for 2021 is \$550, an increase of \$50 from the original 2020 carryover limit.

Thresholds are adjusted annually for inflation and are usually announced around the time when employees are enrolling in benefits.

The IRS released 2021 health savings accounts limits back in May. The annual limit on deductible contributions to an HSA will jump by \$50 for individuals and \$100 for families next year. In 2021, the annual HSA contribution limit will rise to \$3,600 for individuals in a high-deductible plan, the IRS said. That's up from \$3,550 in 2020. Those with family plans will be able to stash up to \$7,200 in 2021—up from \$7,100 in 2020. Account holders who are older than 55 can save an extra \$1,000 annually as a catch-up contribution.

Although employee contribution limits for 401(k)s and FSAs are the same, HR managers should still make sure to convey the limits to workers for next year. Many industry insiders also say employers should encourage employees to fund their 401(k)s to the best of their ability. Contributing to retirement accounts—and increasing contributions over time—is important to long-term savings, even during market volatility. “It’s good guidance for employers to tell workers that any savings they can do today will have an outsize benefit, and it’s important [employees] exercise their option to contribute to this employer plan,” Edward Gottfried, group product manager for Betterment for Business, a provider that works with 500 employer clients, told HRE earlier this year. “One thing we talk about a lot is [employees should] save as much as [they] can comfortably allow, and even push that a little bit. As your level of comfort shifts, it can be necessary or appropriate to shift [contributions] down a little bit, but it’s really important to still contribute, even if it’s at a slightly lower rate than it might have been at other times.”