



Health Care Reform **Bulletin**

Health FSA Limit is Unchanged for 2016

Provided by Sullivan Benefits

Quick Facts

- Under the ACA, employees' salary reduction contributions to health FSAs are subject to a maximum dollar limit.
- For 2013 and 2014, the dollar limit was \$2,500. For 2015, the dollar limit increased to \$2,550.
- On Oct. 21, 2015, the IRS announced the health FSA dollar limit for 2016, in Revenue Procedure 2015-53.
- For 2016 plan years, the health FSA dollar limit will remain unchanged at \$2,550.

Effective for 2016 plan years, employers with health FSAs must limit employees' salary reduction contributions to a maximum of \$2,550.

Effective for plan years beginning on or after Jan. 1, 2013, the Affordable Care Act (ACA) imposes a dollar limit on employees' salary reduction contributions to health flexible spending accounts (FSAs) offered under cafeteria plans. The ACA set the health FSA contribution limit at **\$2,500**. For years after 2013, the dollar limit is indexed for cost-of-living adjustments.

- **2014:** For taxable years beginning in 2014, the dollar limit on employee salary reduction contributions to health FSAs remained unchanged at \$2,500.
- **2015:** For taxable years beginning in 2015, the dollar limit on employee salary reduction contributions to health FSAs increased by \$50, for a total of **\$2,550**.
- **2016:** On Oct. 21, 2015, the Internal Revenue Service (IRS) released [Revenue Procedure 2015-53](#), which includes the annual inflation numbers for 2016 for a number of tax provisions, including the health FSA limit. According to this guidance, for taxable years beginning in 2016, the dollar limit on employee salary reduction contributions to health FSAs will remain unchanged at **\$2,550**.

The health FSA limit will potentially be increased further for cost-of-living adjustments for later years.

Employer Limits

An employer may continue to impose its own dollar limit on employees' salary reduction contributions to health FSAs, as long as the employer's limit does not exceed the ACA's maximum limit in effect for the plan year. For example, an employer may decide to continue limiting employee health FSA contributions for the 2016 plan year to \$2,500.

Per Employee Limit

The health FSA limit applies on an employee-by-employee basis. Each employee may only elect up to \$2,550 in salary reductions, regardless of whether he or she also has family members who benefit from the funds in that FSA.

However, each family member who is eligible to participate in his or her own health FSA will have a separate limit. For example, a husband and wife who have their own health FSAs can both make salary reductions of up to \$2,550 per year, subject to any lower employer limits.

If an employee participates in multiple cafeteria plans that are maintained by employers under



common control, the employee's total health FSA salary reduction contributions under all of the cafeteria plans are limited to \$2,550. However, if an individual has health FSAs through two or more unrelated employers, he or she can make salary reductions of up to \$2,550 under each employer's health FSA.

Salary Reduction Contributions

The ACA imposes the \$2,550 limit on health FSA salary reduction contributions. Non-elective employer contributions to health FSAs (for example, matching contributions or flex credits) generally do not count toward the ACA's dollar limit. However, if employees are allowed to elect to receive the employer contributions in cash or as a taxable benefit, then the contributions will be treated as salary reductions and will count toward the ACA's dollar limit.

In addition, the limit does not impact contributions under other employer-provided coverage. For example, employee salary reduction contributions to an FSA for dependent care assistance or adoption care assistance are not affected by the health FSA limit. The limit also does not apply to salary reduction contributions to a cafeteria plan that are used to pay for an employee's share of health coverage premiums, to contributions to a health savings account (HSA) or to amounts made available by an employer under a health reimbursement arrangement (HRA).

Grace Period/Carry-over Feature

A cafeteria plan may include a grace period of up to two months and 15 days immediately following the end of a plan year. If a plan includes a grace period, an employee may use amounts remaining from the previous plan year, including any amounts remaining in a health FSA, to pay for expenses incurred for certain qualified benefits during the grace period. If a health FSA is subject to a grace period, unused salary reduction contributions that are carried over into the grace period do not count against the \$2,550 limit applicable to the following plan year.

Also, if a health FSA does not include a grace period, it may allow participants to carry over up to \$500 of unused funds into the next plan year. This is an exception to the "use-or-lose" rule that generally prohibits any contributions or benefits under a health FSA from being used in a following plan year or period of coverage. A health FSA carryover does not affect the limit on salary reduction contributions. This means the plan may permit the individual to elect up to \$2,550 in salary reductions in addition to the \$500 that may be carried over.

Plan Amendments

A cafeteria plan with a health FSA must be amended to include the ACA's dollar limit (or a lower limit at the employer's option). In general, cafeteria plan amendments cannot be made retroactively. However, the IRS sometimes provides exceptions to this rule.

Cafeteria plans with health FSAs must have been amended for the ACA's limit on or before **Dec. 31, 2014**. To take advantage of the delayed amendment deadline, the cafeteria plan must have complied in operation with the ACA's limit for health FSAs for plan years beginning after Dec. 31, 2012.

