



Caps on Flexible Spending Account Salary Reductions

Effective January 1, 2013, under Health Care Reform there will be a \$2,500 limit on annual salary reduction contributions to health care flexible spending accounts (FSAs) offered under cafeteria plans. Provisions regarding grandfathered plans do not apply to this requirement, so all health care FSAs offered under cafeteria plans must comply. The \$2,500 amount will be indexed for inflation for taxable years beginning after December 31, 2013.

Employer groups may need to make plan amendments and changes to employee communications before the January 1, 2013 effective date.

The \$2,500 limit raises special issues for health care FSAs that do not have effective dates on January 1st. These plans must monitor compliance with the limit on a calendar-year basis. The annual restriction is on the amount withheld via salary deductions for the year.

Example

- Group with an effective date of 7/1/2012 has a \$5,000 health care FSA.
- July 2012 - December 2012, the member's salary reductions are \$2,500.
- January 2013 - June 2013, the member also has \$2,500 in salary reductions.
- Since the member has met the \$2,500 salary reduction limit for 2013, the member would be ineligible to enroll into an FSA for the next plan year. These plans would need to take the limit into consideration when conducting enrollment for the plan year that included the January 1, 2013 effective date. To simplify administration, we are recommending that employers start to impose the \$2,500 limit beginning with all non-calendar year plans as of February 1, 2012.

Can an employer elect less than the \$2,500 to be the maximum contribution amount for their employees?

Yes, \$2,500 is the maximum amount that may be contributed. The IRS does not specify a minimum amount that an employer can offer.

How does the \$2,500 limit apply to employees with families?

The limit is a flat dollar amount and applies on a per-participant basis, so employees with family members are not permitted to make FSA salary reductions greater than \$2,500. However, a husband and wife who are each eligible for their own employment-based health FSAs will have separate limits (i.e., each spouse could make health care FSA salary reductions up to the \$2,500 limit).

Insurance Management Services helps you make the most of your health benefit plan. If you have questions or need further assistance, please contact your Account Manager.