

LEGAL UPDATE

Health FSA Limit Will Increase for 2022

The Affordable Care Act (ACA) imposes a dollar limit on employees' salary reduction contributions to health flexible spending accounts (FSAs) offered under cafeteria plans. This dollar limit is indexed for cost-of-living adjustments and may be increased each year.

On Nov. 10, 2021, the IRS released [Revenue Procedure 2021-45](#) (Rev. Proc. 21-45), which announced that the health FSA dollar limit on employee salary reduction contributions will **increase to \$2,850 for taxable years beginning in 2022**. This is a \$100 increase from the 2021 health FSA limit of \$2,750. Rev. Proc. 21-45 also increases the carryover limit for a health FSA to **\$570**. It also includes annual inflation-adjusted numbers for 2022 for a number of other tax provisions.

Employers should ensure that their health FSAs will not allow employees to make pre-tax contributions in excess of \$2,850 for the 2022 plan year and communicate the 2022 limit to their employees as part of the open enrollment process.

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 limit employee health FSA contributions for the 2022 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 \$2,850 in salary reductions in 2022, 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 \$2,850 per year, subject to any lower employer limits.

Highlights

- The IRS announced that the health FSA dollar limit will increase to \$2,850 for 2022.
- Employers may continue to impose their own dollar limit on employee salary reduction contributions to health FSAs, up to the ACA's maximum.
- Employers should communicate their 2022 limit to their employees as part of the open enrollment process.

The health FSA dollar limit on employee salary reduction contributions will increase to \$2,850 for taxable years beginning in 2022.

Provided to you by **National Insurance Services**

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