

## FSA 2017

*Updated on Nov. 15, 2016*

Employees will be able to put more income into their health care flexible spending accounts in 2017, when the FSA contribution limit rises to \$2,600.

Other inflation-adjusted benefits caps were also issued by the IRS on the cusp of open-enrollment season for many U.S. companies. [Revenue Procedure 2016-55](#), released on Oct. 25, includes 2017 dollar limits for qualified transportation benefits and for adoption assistance programs, among others.

The increase in the cost-of-living index—up 1.09 percent between the third quarters of 2015 and 2016—was enough to meet the statutory thresholds that trigger rate adjustments for some employee benefits, but not for others.

### Health FSAs

The 2017 limit on voluntary employee salary reductions for contributions to health FSAs is rising to \$2,600. Employers should communicate the higher cap to employees during open enrollment and include the new limit in their open-enrollment materials—even if they must, at this late date, do so through a printed or online addendum.

FSA Contributions	2017	2016
Pretax dollar limit	\$2,600	\$2,550

**Employer contributions.** Health FSAs can be funded on a pretax basis by employees, employers or both. The \$2,600 limit applies to employee salary deferral contributions. Employer contributions to an employee's health FSA may be made in addition to the \$2,600 allowed for employee contributions. But according to [an analysis by Parker, Smith & Feek](#), an insurance and risk management brokerage firm with offices in the Pacific Northwest, "although there isn't technically an annual limitation on employer contributions, health care reform limits employer contributions to \$500/year or an arrangement in which the employer contribution will not exceed the employee's contribution, such as an employer match of employee contributions (up to \$2,600)."

In other words, an employer could either provide a matching contribution or limit its annual account contribution to \$500, as the law now stands.

**Unspent funds.** Since 2013, there have been [two options for handling unused funds in a health FSA at year-end](#) that employers can adopt:

- If a health FSA plan has a [carryover feature](#), participants can roll over up to \$500 of unused FSA dollars to the next year but will forfeit any excess over \$500 at year-end. Any allowable amount that rolls over into the new plan year will not affect the maximum election that employees can make.
- Alternatively, an optional [grace period](#) can give employees an additional two-and-a-half months—through March 15—to incur new expenses using prior-year FSA funds. At the end of the grace period, all unspent funds must be forfeited to the employer.

Plans can offer either the carryover option or a grace period, but not both, or they can offer neither.

*[SHRM members-only toolkit: [Designing and Managing Flexible Benefits \(Cafeteria\) Plans](#)]*