

2016 Cost of Living Adjustments

On October 21, 2015, the IRS released cost of living adjustments for 2016 under various provisions of the Internal Revenue Code (the Code). Some of these adjustments may affect your employee benefit plans.

■ Cafeteria Plans

The Affordable Care Act (ACA) amended Section 125 to place a \$2,500 limitation under Section 125(i) on voluntary employee salary reductions for contributions to health flexible spending arrangements, subject to inflation for plan years beginning after December 31, 2013.

For plan years beginning in 2016, the dollar limitation under Section 125 for voluntary employee salary reductions for contributions to health flexible spending arrangements is **\$2,550**.

■ Qualified Transportation Fringe Benefits

For calendar year 2016, the monthly exclusion limitation for transportation in a commuter highway vehicle (vanpool) and any transit pass (under Code Section 132(f)(2)(A)) remained unchanged at **\$130**; the monthly exclusion limitation for qualified parking expenses (under Section 132(f)(2)(B)) increased to **\$255**.

■ Non-grandfathered Plan Cost-Sharing Limits

The 2016 maximum annual out-of-pocket limits for all non-grandfathered plans are **\$6,850** for individual coverage and **\$13,700** for family coverage.

These limits generally apply with respect to any essential health benefits (EHBs) offered under the group health plan. The final regulations established that starting in the 2016 plan year, the self-only annual limitation on cost sharing applies to each individual, regardless of whether the individual is enrolled in other than self-only coverage, including in a family HDHP.

■ Highly Compensated

The compensation threshold for a highly compensated individual or participant (as defined by Code Section 414(q)(1)(B) for purposes of Section 125 nondiscrimination testing) remains unchanged at **\$120,000** for 2016.

Under the cafeteria plan rules, the term highly compensated means any individual or participant who for the preceding plan year (or the current plan year in the case of the first year of employment) had compensation in excess of the compensation amount as specified in Code Section 414(q)(1)(B). Prop. Treas. Reg. 1.125-7(a)(9).

■ Key Employee

The dollar limitation under Code Section 416(i)(1)(A)(i) concerning the definition of a key employee for calendar year 2016 again remains unchanged at **\$170,000**.

For purposes of cafeteria plan nondiscrimination testing, a key employee is a participant who is a key employee within the meaning of Code Section 416(i)(1) at any time during the preceding plan year. Prop. Treas. Reg. 1.125-7(a)(10).

■ Health Savings Accounts

As announced in May 2015, the inflation adjustments for health savings accounts (HSAs) for 2016 were provided by the IRS in Rev. Proc. 2015-30.

Annual contribution limitation

For calendar year 2016, the limitation on deductions for an individual with **self-only coverage** under a high deductible health plan is **\$3,350**. For calendar year 2016, the limitation on deductions for an individual with **family coverage** under a high deductible health plan is **\$6,750**.

High deductible health plan

For calendar year 2016, a “high deductible health plan” is defined as a health plan with an **annual deductible that is not less than \$1,300 for self-only coverage or \$2,600 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed \$6,550 for self-only coverage or \$13,100 for family coverage.**

Non-calendar year plans: In cases where the HDHP renewal date is after the beginning of the calendar year, any required changes to the annual deductible or out-of-pocket maximum may be implemented as of the next renewal date. [See IRS Notice 2004-50, 2004-33 I.R.B. 196, Q/A-86 \(Aug.16, 2004\).](#)

Catch-up contribution

Individuals who are age 55 or older and covered by a qualified high deductible health plan may make additional catch-up contributions each year until they enroll in Medicare. The additional contribution, as outlined in Code 223(b)(3)(B), is \$1,000 for 2009 and thereafter.

