

2026 Cost of Living Adjustments

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The IRS has released cost of living adjustments for 2026 under various provisions of the Internal Revenue Code (“Code”). Some of these adjustments may affect your employee benefit plans.

■ Cafeteria Plans – Health Flexible Spending Arrangements

Annual contribution limitation

For plan years beginning in 2026, the dollar limitation under Code Section 125(i) for voluntary employee salary reductions for contributions to health flexible spending arrangements (“health FSAs”) increased from \$3,300 to \$3,400.

Annual maximum carryover

For cafeteria plans that permit the carryover option, the maximum unused amount from a health FSA that can be carried over to the following plan year is \$680 for plan years beginning in 2026 (up from \$660 in 2025).

■ Qualified Transportation Fringe Benefits

For calendar year 2026, the monthly exclusion limitation for transportation in a commuter highway vehicle (“vanpool”) and any transit pass (under Code Section 132(f)(2)(A)) and the monthly exclusion limitation for qualified parking expenses (under Code Section 132(f)(2)(B)) increased from \$325 to \$340.

The Consolidated Appropriations Act of 2016 permanently changed the pre-tax transit and vanpool benefits to be at parity with parking benefits.

■ Highly Compensated

The compensation threshold for a highly compensated employee or participant (as defined by Code Section 414(q)(1)(B) for purposes of Code Section 125 nondiscrimination testing) for testing in calendar year 2026 is \$160,000 in the prior year, 2025.

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 testing in calendar year 2026 is \$230,000 in the prior year, 2025.

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)*.

■ Non-Grandfathered Plan Out-of-Pocket Cost-Sharing Limits

As previously reported, the 2026 maximum annual out-of-pocket limits for all non-grandfathered group health plans are \$10,600 for self-only coverage and \$21,200 for family coverage.

These limits generally apply with respect to any essential health benefits (“EHBs”) offered under the group health plan. For coverage other than self-only (e.g., family coverage), the self-only annual out-of-pocket limit applies to each covered individual.

■ Health Reimbursement Arrangements

Qualified Small Employer Health Reimbursement Arrangements

For tax years beginning in 2026, to qualify as a qualified small employer health reimbursement arrangement (“QSEHRA”) under Code Section 9831(d), the arrangement must provide that the total amount of payments and reimbursements for any year cannot exceed \$6,450 (\$13,100 for family coverage), which increased from \$6,350/\$12,800 in 2025.

Excepted Benefit Health Reimbursement Arrangements

For plan years beginning in 2026, to qualify as an excepted benefit health reimbursement arrangement (“EB HRA”) under Treas. Reg. Section 54.9831-1(c)(3)(viii), the maximum amount that may be made newly available for the plan year for an excepted benefit HRA is \$2,200 (increased from \$2,150 in 2025).

■ Health Savings Accounts

As previously reported, the inflation adjustments for health savings accounts (“HSAs”) for 2026 were provided by the IRS in *Rev. Proc. 2025-19*.

HSA annual contribution maximum

For calendar year 2026, the maximum HSA contribution amount for an individual with coverage under an HSA-compatible HDHP is:

- \$4,400 for self-only coverage (up from \$4,300 for 2025)
- \$8,750 for coverage other than self-only (up from \$8,550 for 2025)

Note that Individuals who are age 55 or older and covered by an HSA-compatible HDHP may make an additional HSA catch-up contribution of \$1,000 each year until they enroll in Medicare. This catch-up contribution amount has not increased since 2009.

HSA-compatible high-deductible health plan

For calendar year 2026, an HSA-compatible HDHP is a health plan:

- for which the maximum annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed:
 - \$8,500 for self-only coverage (up from \$8,300 for 2025)
 - \$17,000 for coverage other than self-only (up from \$16,600 for 2025), and
- with a minimum annual deductible that is not less than:
 - \$1,700 for self-only coverage (up from \$1,650 for 2025)
 - \$3,400 for coverage other than self-only (up from \$3,300 for 2025)

Note that if family HDHP coverage includes an embedded individual deductible, for 2026 that embedded individual deductible cannot be less than \$3,400 (the statutory minimum deductible for family HDHP coverage).

Non-calendar year plans: In cases where the HSA-compatible HDHP renewal date is after the beginning of the calendar year (e.g., a fiscal year plan), 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, Q/A-86 (Aug. 9, 2004), <https://www.irs.gov/pub/irs-drop/n-04-50.pdf>.

■ Employer Action

Employers with plan years beginning on or after January 1, 2026, should ensure the correct limits are applied to respective benefit plan options.