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A Summary of 2026 Health and Welfare Plan Limits and Other Annual Adjustments

The Internal Revenue Service (IRS) released [Revenue Procedure 2025-32](#) on October 9, 2025, which contains the 2026 inflation adjustments for various employee benefit plans, including health care flexible spending accounts (HCFSA), qualified transportation fringe benefits, and adoption assistance programs. This Alert also summarizes other health and welfare benefit plan limits announced earlier this year and provides a summary of changes to the employer shared responsibility penalties under the Affordable Care Act (ACA).

If you have any questions or need further details about the tax limits and how they will affect your employee benefit programs, please contact your account team. This Alert is relevant for employers offering any of the affected benefit plans.

Health & welfare plan inflation adjustments

As expected, the 2026 HCFSA employee contribution limit increased by \$100 from the 2025 limit. Employees can contribute up to \$3,400 for plan years beginning on or after January 1, 2026. Employer contributions, if any, do not count against this \$3,400 limit.

The One Big Beautiful Bill Act (OBBBA), which became law on July 4, 2025, increased the annual tax exclusion limit under a dependent care flexible spending account (DCFSA) beginning with the 2026 tax year. The DCFSA limit has increased to \$7,500 for 2026 and subsequent years (\$3,750 each for married couples filing separate tax returns).¹

We provide a comparison of FSA limits for 2025 and 2026 below.

FSA Plan Design Limits		
Item	2025	2026
HCFSA Salary Reduction Limit	\$3,300	\$3,400
HCFSA Carryover Limit	\$660	\$680
DCFSA Annual Limit	\$5,000	\$7,500

¹ The \$7,500 DCFSA limit (\$3,750 each for married couples filing separate tax returns) is fixed and not indexed annually.

Highlights

Overview

This Alert contains the 2026 inflation adjustments for various employee benefit plans, including:

- IRS limits for health care flexible spending accounts (HCFSA), dependent care flexible spending accounts (DCFSA), qualified transportation fringe benefits, and adoption assistance programs
- ACA plan design limits and annual limits for qualified high deductible health plans (HDHPs) and health savings accounts (HSAs)
- IRS limits for excepted benefit health reimbursement arrangements (EBHRAs)
- IRS adjustments to certain employer shared responsibility penalties under the Affordable Care Act (ACA)

This Alert is relevant for employers offering any of the affected benefit plans.

Employer Action

Employers sponsoring applicable health and welfare plan benefits in 2026 that are subject to these indexed adjustments should adjust accordingly for the upcoming plan year and make necessary updates to their administration systems, participant communications, etc.

Qualified transportation fringe benefits

The monthly dollar limit for employee contributions toward qualified parking expenses increased to **\$340** per month in 2026. The combined transit pass and vanpooling expense limit also increased to **\$340** per month.

Adoption credit/adoption assistance programs

The maximum adoption credit allowed under Code Section 23 increases to **\$17,670** in 2026. Similarly, the maximum amount that an employer can exclude from an employee's income under Code Section 137 for adoption assistance benefits increases to **\$17,670**. The 2026 income threshold at which the credit (and income exclusion for employer provided benefits) begins to phase out increases to \$265,080 and is completely phased out for taxpayers with modified adjusted gross incomes of \$305,080 or more.

Other health & welfare plan limits

The IRS released [Rev. Proc. 2025-19](#) on May 1, 2025, containing the 2026 qualified high deductible health plan (HDHP) and health savings account (HSA) annual limits. The U.S. Department of Health & Human Services published [final regulations](#) on June 25, 2025, that include changes to the calculations for certain cost sharing limits. The final regulations provide new 2026 out-of-pocket maximum limits (OOPMs) for non-grandfathered medical plans subject to the ACA. The new limits are 4.4 percent higher than the initial 2026 OOPMs published late last year.²

The limits apply to plan years beginning during the applicable calendar year. Limits for 2025 and 2026 are shown below for comparison purposes.

ACA Plan Design Limits		
<u>Item</u>	<u>2025</u>	<u>2026</u>
Out-of-Pocket Maximum Limit³	Self-only: \$9,200 Family: \$18,400	Self-only: \$10,600 Family: \$21,200
<i>Embedded Self-Only Out-of-Pocket Maximum Limit³</i>	\$9,200	\$10,600

HDHP and HSA Annual Limits		
<u>Item</u>	<u>2025</u>	<u>2026</u>
HDHP Minimum Deductible	Self-only: \$1,650 Family: \$3,300	Self-only: \$1,700 Family: \$3,400
<i>Minimum Embedded Individual Deductible (applies only to family coverage tier if used)⁴</i>	\$3,300	\$3,400
HDHP Out-of-Pocket Maximum Limit	Self-only: \$8,300 Family: \$16,600	Self-only: \$8,500 Family: \$17,000
<i>Embedded Self-Only Out-of-Pocket Maximum Limit³</i>	\$9,200	\$10,600

² HHS published the initial [2026 annual limits](#) on October 8, 2024.

³ This limit does not apply to plans that remain grandfathered under the ACA. Embedded self-only OOPMs are required for non-grandfathered plans with family OOPMs above the self-only ACA limit. A qualified HDHP plan must also satisfy this requirement.

⁴ If an HDHP uses an embedded individual deductible for family coverage, the embedded individual deductible cannot be less than the annual statutory minimum family deductible to maintain qualified HDHP status.

HDHP and HSA Annual Limits		
<u>Item</u>	<u>2025</u>	<u>2026</u>
HSA Annual Contribution Limit	Self-only: \$4,300 Family: \$8,550	Self-only: \$4,400 Family: \$8,750
HSA Catch-up Contribution Limit (age 55 and older)	\$1,000	\$1,000

2026 maximum amount for Excepted Benefit HRA

IRS Rev. Proc. 2025-19 also included the 2026 revised annual contribution limit for Excepted Benefit HRAs. The maximum annual HRA contribution is \$2,200 for plan years that begin in 2026.

Excepted Benefit HRAs were created in late 2017 via a Presidential Executive Order. If it meets certain conditions, an Excepted Benefit HRA is exempt from the ACA's plan design mandates, allowing an employer to offer it on a standalone basis. Excepted Benefit HRAs may reimburse general medical expenses and premiums for COBRA, short-term limited duration insurance, and other excepted benefits coverage. Our previous [Alert](#) covers Excepted Benefit HRAs in more detail.

Update to ACA employer mandate penalties and affordability safe harbor percentage

Section 4980H penalties

The ACA's employer shared responsibility mandate requires Applicable Large Employers (ALEs) to offer medical coverage to their full-time (FT) employees⁵ in order to avoid potential penalties.

- The Section 4980H(a) penalty (the "no offer" penalty) – This penalty is triggered when an ALE fails to offer minimum essential coverage to at least 95% of its FT employees for a month, and at least one FT employee receives a subsidy in the Public Health Insurance Marketplace (Marketplace) for that month. The "no offer" penalty calculation is:

$$(\text{The ALE's total number of FT employees} - 30) \times \text{4980H(a) penalty amount}^6$$

- The Section 4980H(b) penalty (the "inadequate offer" penalty) – This penalty is triggered when an ALE offers minimum essential coverage to at least 95% of its FT employees but fails to offer affordable and/or minimum value coverage to a FT employee who receives a subsidy in the Marketplace. The inadequate offer penalty is limited to the FT employees actually receiving subsidies.

⁵ The offer must also include the FT employee's natural and adopted children under age 26 in order to count as an offer to the FT employee.

⁶ If the ALE is a member of a group of closely related employers, the 30 FT employee exclusion does not independently apply to each member. Instead, each member receives a share of the total exclusion based on its proportion of FT employees relative to the entire group.

The IRS listed the 2026 penalty amounts in [Rev. Proc. 2025-26](#) and the 2026 affordability safe harbor percentage in [Rev. Proc. 2025-25](#). For comparison purposes, the 2025 and 2026 affordability safe harbor percentages and penalties are below.

Plan year beginning on or after	Section 4980H(a) Penalty	Section 4980H(b) Penalty	Affordability Safe Harbor %
January 1, 2025	\$241.67/month \$2,900/year	\$362.50/month \$4,350/year	9.02%
January 1, 2026	\$278.33/month \$3,340/year	\$417.50/month \$5,010/year	9.96%

Failure to report penalties

The [potential penalties](#) for failing to timely file the Forms 1094/1095 with the IRS and/or to deliver Forms 1095-B or -C to required individuals are shown below. The penalties are per each late form.

Year forms due	Up to 30 days late	31 days late through August 1 st of year forms due	After August 1 st of year forms due	If intentional disregard to file
2025	\$60	\$130	\$330	\$660
2026	\$60	\$130	\$340	\$680

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