

October 23, 2024

A Summary of 2025 Health and Welfare Plan Limits and Other Annual Adjustments

The Internal Revenue Service (IRS) released [Revenue Procedure 2024-40](#) on October 22, 2024, which contains the 2025 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 brief 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 2025 HCFSA employee contribution limit increased by \$100 from the 2024 limit. Employees can contribute up to \$3,300 for plan years beginning on or after January 1, 2025. Employer contributions, if any, do not count against this \$3,300 limit. The dependent care flexible spending account limit (DCFSA) remains unchanged.¹

We provide a comparison of FSA limits for 2024 and 2025 below.

FSA Plan Design Limits		
Item	2024	2025
HCFSA Salary Reduction Limit	\$3,200	\$3,300
HCFSA Carryover Limit	\$640	\$660
DCFSA Annual Limit	\$5,000	\$5,000

¹ The \$5,000 DCFSA limit is statutory and requires an act of Congress to modify it.

Highlights

Overview

This alert contains the 2025 inflation adjustments for various employee benefit plans, including:

- IRS limits for health care flexible spending accounts (HCFSA), 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 2025 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 **\$325** per month in 2025. The combined transit pass and vanpooling expense limit also increased to **\$325** per month.

Adoption credit/adoption assistance programs

The maximum adoption credit allowed under Code Section 23 increases to **\$17,280** in 2025. Similarly, the maximum amount that an employer can exclude from an employee's income under Code Section 137 for adoption assistance benefits increases to **\$17,280**. The 2025 income threshold at which the credit (and income exclusion for employer provided benefits) begins to phase out increases to \$259,190 and is completely phased out for taxpayers with modified adjusted gross incomes of \$299,190 or more.

Other health & welfare plan limits

The IRS released [Rev. Proc. 2024-25](#), on May 9, 2024, containing the 2025 qualified high deductible health plan (HDHP) and health savings account (HSA) annual limits. The U.S. Department of Health & Human Services also previously released the [2025 annual limits](#) for non-grandfathered medical plans subject to the Affordable Care Act (ACA). The limits apply to plan years beginning during the applicable calendar year. Limits for 2024 and 2025 are shown below for comparison purposes.

ACA Plan Design Limits		
<u>Item</u>	<u>2024</u>	<u>2025</u>
Out-of-Pocket Maximum Limit²	Self-only: \$9,450 Family: \$18,900	Self-only: \$9,200 Family: \$18,400
<i>Embedded Self-Only Out-of-Pocket Maximum Limit²</i>	\$9,450	\$9,200

HDHP and HSA Annual Limits		
<u>Item</u>	<u>2024</u>	<u>2025</u>
HDHP Minimum Deductible	Self-only: \$1,600 Family: \$3,200	Self-only: \$1,650 Family: \$3,300
<i>Minimum Embedded Individual Deductible (if used)</i>	\$3,200	\$3,300
HDHP Out-of-Pocket Maximum Limit	Self-only: \$8,050 Family: \$16,100	Self-only: \$8,300 Family: \$16,600
<i>Embedded Self-Only Out-of-Pocket Maximum Limit²</i>	\$9,450	\$9,200
HSA Annual Contribution Limit	Self-only: \$4,150 Family: \$8,300	Self-only: \$4,300 Family: \$8,550
HSA Catch-up Contribution Limit (age 55 and older)	\$1,000	\$1,000

² Limits do not apply to grandfathered plans under the ACA.

2025 maximum amount for Excepted Benefit HRA

IRS Rev. Proc. 2024-25 also included the 2025 revised annual contribution limit for Excepted Benefit HRAs. The maximum annual HRA contribution is \$2,150 for plan years that begin in 2025.

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.

Decrease to ACA employer mandate penalties

Section 4980H penalties

The ACA’s employer shared responsibility mandate requires Applicable Large Employers (ALEs) to offer medical coverage to their full-time (FT) employees³ 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:

$$(\text{The ALE's total number of FT employees} - 30) \times \text{4980H(a) penalty amount}^4$$

- 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.

The IRS listed the 2025 penalty amounts in [Rev. Proc. 2024-14](#) and the 2025 affordability safe harbor percentage in [Rev. Proc. 2024-35](#). For comparison purposes, the 2024 and 2025 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, 2024	\$247.50/month \$2,970/year	\$371.67/month \$4,460/year	8.39%
January 1, 2025	\$241.67/month \$2,900/year	\$362.50/month \$4,350/year	9.02%

³ 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.

⁴ 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.

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
2024	\$60	\$120	\$310	\$630
2025	\$60	\$130	\$330	\$660

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