

2023 FSA Limits Increase in Response to Rising Inflation

HR Executive | Kathryn Mayer | October 21, 2022

Spurred by soaring inflation, which has been on an upward trajectory over the last year, the Internal Revenue Service pushed the cap for flexible spending accounts next year above \$3,000 in one of the larger increases in recent years.

Employees will be able to contribute \$3,050 to FSAs—made pretax through salary reductions—in 2023, the agency said this week. That's up \$200 from this year's \$2,850 limit. FSA limits generally increase by about \$100 each year.

For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount is \$610—an increase of \$40, the IRS said.

Shobin Uralil, co-founder and COO of health savings account provider Lively, says the increase in FSA contribution limits is "a step in the right direction" but isn't enough to address financial concerns from employees. "Americans are seriously struggling due to high inflation rates, and the reality is that they will need more ways to save and invest their dollars to protect their retirement," he says.

Indeed, the 7% increase for FSA limits is still lower than the current inflation rate, which is 8.2%, according to the latest consumer price index. Inflation has taken its toll on nearly all aspects of employees' finances, from monthly expenses to emergency savings and retirement savings, information that is spurring many employers to make changes in the form of salary adjustments, bonuses or enhanced financial wellness benefits.

Still, a bigger increase in FSA limits—as well as health savings accounts—can be helpful for workers. The IRS back in May announced its 2023 annual HSA limits, which also increased more significantly in response to inflation. Health savings account contribution limits for an individual with self-only coverage will jump to \$3,850—a significant \$200 increase from \$3,650 for this year. Last year, the amount climbed just \$50 from \$3,600 for 2021. For family coverage, the HSA contribution limit jumps to \$7,750 next year from \$7,300 in 2022.

Experts say employers would be wise to promote HSAs and FSAs and encourage workers to increase their contributions as a helpful way to assist with medical costs.