

National Compliance Update

USI EMPLOYEE BENEFITS

November 12, 2026

2027 Cost of Living Adjustments

The IRS has released cost of living adjustments for 2027 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 2027, the dollar limitation under Code Section 125(i) for voluntary employee salary reductions for contributions to health flexible spending arrangements ("health FSAs") increased from $3,400 to **$3,500**.

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 **$700** for plan years beginning in 2027 (up from $680 in 2026).[1]

QUALIFIED TRANSPORTATION FRINGE BENEFITS

For calendar year 2027,[2] 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 $340 to **$350**.

The Consolidated Appropriations Act of 2016 permanently changed the pre-tax transit and vanpool benefits to be at parity with parking benefits.[3]

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[1] In May 2020, the IRS issued Notice 2020-33 to increase the carryover limit for unused amounts remaining in a health FSA as of the end of a plan year from a static maximum of $500 to 20% of the currently indexed health FSA contribution limit for plans that have adopted the carryover option.

[2] "Calendar year 2027" refers to January 1, 2027 – December 31, 2027, regardless of plan year.

[3] Section 105, Consolidated Appropriations Act, 2016, https://www.congress.gov/114/bills/hr2029/BILLS-114hr2029enr.pdf; for more information see IRS Notice 2016-6, https://www.irs.gov/pub/irs-drop/n-16-06.pdf. Beginning with the 2018

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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 2027 is **$170,000** in the prior year, 2026.

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 2027 is **$245,000** in the prior year, 2026.

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,[4] the 2027 maximum annual out-of-pocket limits for all non-grandfathered group health plans are **$12,000** for self-only coverage and **$24,000** 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 2027, 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 **$6,700** ($13,550 for family coverage), which increased from $6,450/$13,100 in 2026.

Excepted Benefit Health Reimbursement Arrangements

For plan years beginning in 2027, 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 **$2,250** (increased from $2,200 in 2026).

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calendar year, employers can no longer deduct qualified transportation fringe benefits; employees may still pay for these benefits on a tax-favored basis.

[4] See USI's Compliance Update, Annual Out-of-Pocket Maximum Adjustments Announced for 2027 (February 5, 2026).

HEALTH SAVINGS ACCOUNTS

As previously reported,[5] the inflation adjustments for health savings accounts ("HSAs") for 2027 were provided by the IRS in *Rev. Proc. 2026-24*.

HSA annual contribution maximum.

For calendar year 2027, the maximum HSA contribution amount for an individual with coverage under an HSA-compatible HDHP is:

- **$4,500** for **self-only coverage** (up from $4,400 for 2026)
- **$9,000** for **coverage other than self-only** (up from $8,750 for 2026)

  USI Note. 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 2027, 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:**
  - **$8,700** for **self-only coverage** (up from $8,500 for 2026)
  - **$17,400** for **coverage other than self-only** (up from $17,000 for 2026),[6] and
- with a **minimum annual deductible** that is **not less than:**
  - **$1,750** for **self-only coverage** (up from $1,700 for 2026)
  - **$3,500** for **coverage other than self-only** (up from $3,400 for 2026)

  USI Note. If family HDHP coverage includes an embedded individual deductible, for 2027 that embedded individual deductible cannot be less than $3,500 (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 NEXT STEPS

Employers with plan years beginning on or after January 1, 2027, should ensure the correct limits are applied to respective benefit plan options.

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[5] See USI's Compliance Update, 2027 Inflation Adjusted Amounts for HSAs, HDHPs, and EBHRAs (June 4, 2026).
[6] Note that the out-of-pocket maximum limits for HSA-compatible HDHPs are generally lower than the out-of-pocket maximum limits for all non-grandfathered group medical plans.

RESOURCES

- Rev. Proc. 2026-35 – Inflation Adjusted Items for 2027, Nov. 5, 2026
  - https://www.irs.gov/pub/irs-drop/rp-26-35.pdf
  - Includes cost of living adjustment information for Cafeteria Plans (health FSAs), Qualified Transportation Fringe Benefits and QSEHRAs
- Rev. Proc. 2026-24 – HSA Inflation Adjustments, May 29, 2026
  - https://www.irs.gov/pub/irs-drop/rp-26-24.pdf
  - Includes cost of living adjustment information for HSAs and EB HRAs
- Federal Register, Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment Parameters for 2027. Vol. 91, No. 28, February 11, 2026
  - https://www.govinfo.gov/content/pkg/FR-2026-02-11/pdf/2026-02769.pdf
  - Final rule, https://www.cms.gov/files/document/2027-papi-parameters-guidance-2026-01-29.pdf
  - Non-grandfathered plan cost-sharing limits

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