



Fiduciary Plan Partners

Four Things to Know About Plan Limit Hikes

In October, the Internal Revenue Service significantly raised the contribution limits for 401(k)s and other plans effective in 2023. As plan sponsors begin to think about how to communicate these changes to employees, it's a perfect opportunity to educate, demystify, and encourage participation in these plans.



What to Know

- 1. Retirement.** 401(k), 403(b) and most 457 plans got a 10% increase on the contribution limit, so it's now \$22,500. At first glance, employees might say that it's already too hard to set aside money for retirement. Fewer than 15% of Americans who have a 401(k) contribute the maximum amount allowed.
- 2. Health FSA.** The Health FSA was raised to \$3,050 (an extra \$200) for annual contributions and now \$610 of that can be rolled over if it's not used. Participants might not take advantage of this one if they don't have expenses from actual medical visits or if they've experienced losing funds in the past because they didn't use it all.
- 3. Dependent FSA (DCAP).** The annual limit on employee contributions to a DCAP will remain at \$5,000/\$2,500 for 2023 and future years unless extended or amended by Congress. But employees sometimes don't realize that these funds aren't just for childcare but also for elderly care. If a dependent elder is claimed on annual taxes and lives with the participant for at least eight hours of the day, then that elder likely has expenses related to care that can be claimed and reimbursed with this tax-free amount.
- 4. Health Savings Account (HSA).** The IRS bumped this one up by 5% from 2022. That means an individual can now contribute \$3,850 and a family can contribute up to \$7,750 if the employer sponsors high-deductible health plans.



What to Highlight for Participants

1. **Retirement.** Highlight that a bear market means that stocks are cheap and could be the perfect time to invest if history plays out as usual.
2. **Health FSA.** Direct them to the FSA site and highlight that a slew of new products was recently added to the eligible expenses list. That means they can use their FSA card to purchase things like menstrual care products, pain relievers and first aid creams, cold & flu medications, toothache relievers, gastrointestinal aids, allergy & sinus medicines, and sleeping aids.
3. **Dependent FSA (DCAP).** Show them the verbiage in the eligibility section of the DCAP. This means paying a full- or part-time care attendant, paying for assistance getting to and from medical appointments or errands and purchases related to their healthcare needs. You can point out that services such as those found on care.com are easily reimbursable.
4. **Health Savings Account (HSA).** Some companies are starting to offer HSA contribution matches, calculating them like the 401(k) matches they offer. Highlight that the HSA is something they can take with them from employer to employer and that they can save it up for retirement on down the road.

Help Them Do the Math

Sometimes, employees don't take advantage of these programs simply because they're busy and they haven't sat down to do the math. It's often hard to see exactly what the savings would be if they were to send just \$1,000 to their future selves. Put together an email that briefly shows what the impact would be at various income levels if \$1,000 went to each of these programs and what it might mean when tax season comes.

Sources:

<https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500>

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