



Issue Highlights

- The IRS has announced increased contribution limits for FSAs for 2025.
- Letters of Medical Necessity (LMNs) are essential in substantiating certain health expenses and have become the subject of confusion in the industry. In this issue, we highlight some key FAQs to help shed some light on LMNs.
- The December 31st FSA deadline is just around the corner! We share some compliance tips & tricks.

IRS Releases FSA Contribution Limits for 2025

On October 22nd, the IRS released [Revenue Procedure 2024-40](#), which announces new FSA contribution & carryover limits for 2025, among other cost-of-living increases. The adjusted 2025 FSA limits are as follows (in comparison to 2024):

- **2025 Employee FSA Contribution Limits:** \$3,300 (\$3,200 in 2024)
- **2025 Maximum FSA Carryover:** \$660 (\$640 in 2024)

Some important notes regarding the updated limits:

- The FSA limit does not include carryovers. If an employer offers a carryover of up to \$640 in 2024, someone could have an FSA with \$3,940 in it (\$3,300 + \$640) in 2025.
- If a participant elects the maximum contribution and leaves their employer mid-year, they can still elect the maximum with their new employer.
- The FSA limit is the same for those participating in the health plan as single as it is for those participating as family.



Letters of Medical Necessity (LMNs)

Frequently Asked Questions

Health-E Commerce remains committed to 100% FSA and HSA eligibility, and does not carry products or promote services which require an LMN. However, there has been some confusion surrounding LMNs in the industry recently, aided in part by the emergence of companies providing them based on self-reported information. Here we review some common LMN questions to help clarify:

What is a Letter of Medical Necessity (LMN)?

A Letter of Medical Necessity is a document provided by a licensed healthcare provider recommending a particular service or item to diagnose, treat, mitigate, or prevent a medical condition.

Why are LMNs required for certain FSA/HSA reimbursements?

In situations where a service or item does not neatly align with the IRS's definition of a qualified medical expense, an LMN can help substantiate that the expense was primarily for a medical purpose and therefore eligible for reimbursement with an FSA/HSA.

What expenses typically need an LMN?

Expenses that have a medical and personal use or general health component likely require an LMN to show they were purchased for the treatment of a specific medical condition. Such expenses include gym memberships, most vitamins and dietary supplements, fitness equipment, massage therapy, etc.

What information should an LMN include?

LMN content will vary, but it should typically include the patient's name, diagnosis, recommended treatment or item, the duration of the treatment, and the healthcare provider's information and signature. These key components of the document help establish the medical basis for the expense.

What else do I need to know about LMNs?

Please keep in mind that the presence of an LMN may not be enough for substantiation of an expense. The IRS has issued varying guidance on specific expenses, such as food and beverages, that should be taken into account. For example, there are additional stipulations that must be considered when deciding if a food item is eligible, other than recommendation by doctor. This includes whether the item is not a substitute for normal nutritional requirements. The IRS has also cautioned (via IR-2024-65) against companies misrepresenting general health expenses as medical care through LMNs based on self-reported information.

Health-E Commerce has created a comprehensive guide to Letters of Medical Necessity for our TPA partners, including informative checklists and guidance that can aid them in navigating LMN claims. If anyone reaches out to you to obtain a copy, please direct them to compliance@fsastore.com.

Legislative & Regulatory News Bites

Condoms are confirmed by IRS as qualified medical expenses

On October 17th, the IRS released Notice 2024-71, officially expanding FSA & HSA eligible over-the-counter items to include oral contraceptives (including emergency contraceptives) and male condoms, effective for plan years that begin on or after December 30, 2022.

While the industry in general had already interpreted these contraceptive products as eligible medical expenses, the explicit confirmation from the IRS removes any uncertainty and will help streamline claims administration for employers and plan administrators.

This clarification ensures the protection of broader accessibility of contraceptives for the millions of Americans who rely on FSAs and HSAs to save money on their healthcare costs.



IRS expands list of preventive care services for high deductible health plans

On October 17th, the IRS also released [Notice 2024-75](#), which expands the list of preventive care benefits that can be covered by a high-deductible health plan (HDHP) prior to meeting the minimum deductible.

Generally, an HDHP may not cover healthcare services before the deductible is met. However, HDHPs can cover certain preventive care services prior to the deductible, making it easier for enrollees to access essential health services without facing high out-of-pocket costs initially. HDHPs are permitted to cover preventive services like annual physicals, immunizations, screenings (such as mammograms and colonoscopies), and other essential wellness checks.

Notice 2024-75 expands the list of preventive care benefits that can be covered by a HDHP to include OTC oral contraceptives and male condoms. The Notice also clarifies when breast cancer screening, glucose monitors for those diagnosed with diabetes and certain insulin products are considered preventive care benefits.



HEC in the Press

PRWeb: "5 important facts from FSA Store about newly announced IRS FSA limits" 10/23/24

Employee Benefits News: "The Basics of LMNs for HR Teams" 9/26/24

BenefitsPRO: "HSAs and open enrollment: 3 ways to demonstrate value" 10/4/24

PRWeb: "HSA Store celebrates HSA Day with new Learning Center resources for open enrollment" 10/7/24

Did You Know?

Use-it-or-lose-it! While FSA deadlines can vary based on the start of the plan year, approximately 70% of FSA users have a December 31st deadline. FSA users also forfeit about \$3 billion per year by not spending down their funds by their deadline. (According to EBRI, the average account holder forfeited \$441 in 2023).

With the December 31st FSA deadline approaching, education and targeted deadline messaging can help participants avoid losing their hard-earned funds by reminding them of their deadline and the wide variety of expenses on which they can spend their funds. Regular reminders make it easy for participants to use their money before it expires and get the most out of their FSA.

Partner Question of the Month

Q: *Can a procedure directed at approving an individual's appearance be eligible with an LMN?*

A: The IRS does not consider cosmetic surgery or other similar services aimed at approving appearance to be medical expenses. However, if the procedure is necessary to ameliorate a deformity resulting from an injury, congenital abnormality, accident, trauma, or disfiguring disease, it could qualify with an LMN.