

EMPLOYEE BENEFITS AND EXECUTIVE COMPENSATION INFORMATION MEMO

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One Big Beautiful Benefits Bill? – Employee Benefits Provisions in the One Big Beautiful Bill Act

Background

The President recently signed the One Big Beautiful Bill Act (OBBBA) into law. And, while employee benefits play a relatively minor role in the bill, there are several surprisingly important changes tucked into its provisions. Employers can leverage knowledge of these changes to maximize the value of the benefits offered to their employees.

High Deductible Health Plans and HSAs

A high deductible health plan (HDHP) is a health plan that doesn't cover eligible expenses until a high¹ deductible is met (an exception is preventive services, which HDHPs may cover prior to the deductible being met). HDHPs can be paired with health savings accounts (HSAs) which allow employees to contribute and use pre-tax money to pay for medical expenses incurred before the deductible is met (and save the rest for the future).

The baseline rule, however, is that an HDHP cannot waive its deductible except for certain preventive services. This exclusion included telehealth services, and as a result, HDHP participants were required to pay for telehealth services unless the deductible was met.

This changed for telehealth services during the COVID-19 pandemic. The CARES Act created a temporary safe harbor to allow an HDHP to cover telehealth at no cost before the plan's deductible is met. This safe harbor was subsequently extended twice but finally expired for plan years beginning on or after Jan. 1, 2025.

The OBBBA, thankfully for those who have come to rely on it, makes the briefly expired telehealth safe harbor permanent and includes a retroactive effective date to close the gap between the prior extension and the enactment of the OBBBA.

The OBBBA also allows use of HSA money for "direct primary care arrangements," so long as they do not exceed \$150 per month for individual coverage or \$300 per month for member and spouse or family coverage. (These amounts include an annual cost-of-living adjustment). A direct primary care arrangement provides solely primary care services and the only compensation for those services is a fixed, periodic fee. The OBBBA also provides that coverage by a direct primary care arrangement that complies with these fee limits will not disqualify someone from being eligible to participate in an HSA.

The OBBBA also expands the types of plans that are considered HDHPs. Beginning in 2026, all Bronze and Catastrophic plans that are available on the individual market through an exchange established under the Affordable Care Act qualify as HDHPs and thus are eligible to be paired with HSAs.

¹ The IRS sets minimum and maximum deductibles that HDHPs can use.

Dependent Care Flexible Spending Accounts

A dependent care flexible spending account (FSA) allows employees to save pre-tax money to be used to pay eligible expenses like preschool and daycare. Starting in Jan. 2026, the dependent care FSA limit is increased to \$7,500, up from \$5,000 (or, for taxpayers who are married filing separately, to \$3,750 from \$2,500). This means that employers that offer this benefit will be able to allow their employees to contribute this higher amount. Working parents will welcome this expansion of a pre-tax benefit.

Trump Accounts

Basically, Trump Accounts are IRAs intended for children. Beginning in 2026, taxpayers will be able to elect to create accounts on behalf of their dependents under the age of 18 (if no election is made for an eligible child, the Treasury Department will do so of its own accord). Contributions may be made one year after the OBBBA's enactment and are generally limited to \$5,000 per year from all sources (indexed for inflation). Contributions are generally after tax and limited to years before the child reaches age 18. Additionally, children born 2025 through 2028 will receive \$1,000 in seed money from the Treasury Department.

Money in Trump Accounts grows tax-deferred and must be invested in eligible investments, which are mutual funds or ETFs that track the returns of an index, like the S&P 500. Employers will be able to contribute up to \$2,500 (indexed for inflation) to an account of an employee or an employee's dependent pursuant to a written plan. This money is excluded from the income of the employee and the beneficiary of the account and employers can deduct it as a business expense. Note though, that employer contributions are included in the \$5,000 yearly cap and such contributions are subject to nondiscrimination testing.

So long as the money is spent on a "qualifying purpose" after age 18, like education or a house, distributions will not be subject to an early withdrawal penalty. Withdrawals in excess of taxpayer contributions are treated as ordinary income, not capital gains.

529 Plans

529 plans, or qualified tuition plans, are tax-advantaged savings accounts that are most commonly used to save for college. The OBBBA expands the types of expenses for which 529 plans may be used. Newly allowed are expenses at elementary or secondary public, private or religious schools for things like books, testing fees and online educational materials. The OBBBA increases the amount of allowed expenses for tuition in connection with enrollment or attendance at an elementary or secondary school to \$20,000 from \$10,000.

The OBBBA also allows certain expenses (e.g., tuition, fees and books) for postsecondary credentialing offered outside of a traditional higher education institution to be paid from a 529 plan without penalty.

Other Fringe Benefit Adjustments

The OBBBA also made a handful of fringe benefit changes that are worth noting:

- The employer tax credit for providing paid FMLA leave no longer expires in 2026, and eligibility to claim the credit is expanded.
- The tax exclusions for employer-paid bicycle commuting and moving expense reimbursements, which were previously temporarily eliminated from 2018-2025, have been eliminated indefinitely.
- The exclusion from employee income of student loan reimbursements from employers no longer expires in 2026.

Employers should consider how these changes will impact their benefit administration. For example, certain changes will require plan amendments and participant communications. In addition, while the increase in the dependent care FSA limit is welcome for many employees, it may require close monitoring of nondiscrimination testing results by plan sponsors, as the higher limit could result in testing challenges.

If you have questions about how to adjust your employee benefits strategy to get the most out of the OBBBA, contact [Gregory Katz](#), any attorney in our [Employee Benefits and Executive Compensation practice](#), or the attorney at Bond with whom you are regularly in contact.

