

## FSA "Use It or Lose It" Rule Changes

The IRS recently announced an important ruling that will offer new flexibility for FSA plan participants. According to the ruling, you can now give your FSA plan a "grace period" of up to 2 ½ months for employees to spend the money they have left in their accounts at the end of the year.

### What The IRS Ruling Means For You And Your Employees

- Your participants get a reprieve from the "use it or lose it" rule. If there's a balance left at the end of the year, participants can use it to reimburse claims they incur during the grace period. For example, let's say you have \$500 left in your health care FSA at the end of the 2005 plan year. If you incur \$400 worth of eligible expenses on January 15, 2006, that amount can be reimbursed from your 2005 health care FSA balance.
- The grace period can last as long as 2 ½ months after the end of the plan year. For calendar year plans, that's March 15<sup>th</sup> of the following year.
- In order to use the grace period, you must have an unused balance in the account at the end of the year.
- Funds that are not used by the end of the grace period are forfeited. Let's say you have a \$500 balance in your health care FSA at the end of 2005. You incur \$400 worth of eligible expenses on January 15, 2006 – and no other expenses are incurred before the end of the grace period on March 15, 2006. You can be reimbursed for the \$400, but you will forfeit the balance of \$100 that is not spent by the end of the grace period.
- If an expense is incurred during the grace period, it will also be subject to a claims filing deadline. You will need to amend your plan document to provide for this.
- You cannot use money left at the end of the year to fund a different type of account (that is, no using leftover health care funds for dependent care expenses – an extension of the current rule).
- The grace period is NOT automatic. You must amend your plan document, before the end of the plan year, to provide a grace period for your participants.
- You will have to update your Summary Plan Descriptions (SPD's) as well.

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