

FAQ

Health FSA “Carryover” Rule

What has changed?

The US Treasury Department amended the use-it-or-lose-it rule to allow a limited amount of unused funds to rollover at the end of the plan year. Although the IRS notice calls it “carryover”, we call it “rollover” to match our system feature.

How much can rollover?

Up to \$500 in unused funds can rollover into the following plan year.

Are rollover amounts cumulative?

No. The rollover amount from one year to the next is capped at \$500. For example, if a participant has \$500 that rolls over from 2014 to 2015, and then they contribute \$500 in 2015, but do not file any claims for 2015, the rollover amounts cannot be combined to \$1,000 to be rolled over into 2016—only \$500 can be carried forward.

How is the rollover amount calculated?

The rollover amount is determined after all expenses have been reimbursed for that plan year (after the end of the plan’s run-out period). For example, the current FSA plan has a run-out period that ends on March 31 of the following plan year, the amount rolled over for a plan year is equal to the amount from that plan year remaining in the participant’s health FSA after March 31 (up to the rollover amount, but no more than \$500). Any unused amount in excess of \$500 is forfeited.

Does the rollover amount reduce the \$2,500 maximum annual contribution?

No. For example: If the full \$500 were to rollover into the following plan year and the employee elected to contribute the full \$2,500 in that year, they would have a total of \$3,000 available for reimbursement of eligible healthcare expenses that year.

When does the new rule take effect?

FHDA will amend the change immediately for Plan Year 2013.

Due to the rollover option, does this give the employee an opportunity to enroll or change election amounts?

It is not permissible to allow employees to change election amounts unless the employee experiences a qualified life event.

Does the rollover option affect the run-out period?

No. Participants will still be able to file claims during the run-out period (March 31st) for expenses incurred during the plan year. This will be useful for participants with more than \$500 in their FSA account at the end of the year.

Does a participant have to elect a health FSA in the plan year into which funds are rolled over?

The guidance does not preclude rollover of funds for participants who do not enroll in an FSA the following plan year. Although a participant may not be contributing in the rollover year, they remain a participant until their rollover funds are exhausted or their employment is terminated.

What happens to the rollover with terminated participants?

If a participant terminates mid-plan year, they are not eligible to receive funds rollover. However, they have a run-out period (90 days from the date of termination of employment) to submit claims within the dates of service for which they were eligible for reimbursement.

In what order are funds utilized for new claims?

According to the guidance examples, current year funds should be used prior to any rollover funds being used.