

Medical FSA Annualization:

What it Is; Why it is Required

The Annualization Rule, also known as the uniform coverage rule, is required of all Medical FSAs by [Prop. Treas. Reg. § 1.125-2, Q/A-7\(b\)\(2\)](#). It states that “the maximum amount of reimbursement under a health FSA must be available at all times during the period of coverage...”.

This means a Medical FSA participant electing a \$100/month contribution may incur and be reimbursed for the full \$1200 annualized benefit anytime during the plan year.

This is because federal law consistently treats Medical FSAs the same as other health plans, notably health insurance:

- Medical FSA benefits must be available in their full annualized maximum as long as contributions are being made (analogous to health insurance benefits being fully available if premiums are currently paid);
- COBRA applies to the Medical FSA (same as other medical plans, notably medical insurance);
- Form 5500 must be filed for flex plans with over 100 Medical FSA plan participants (same as with medical plans of over 100 participants).



Many creative efforts have been conceived to circumvent this rule, but all are ineffective: The law specifically requires that the plan be at risk for the annualized Medical FSA amount. (This rule does *NOT* apply to Dependent Care FSAs.)

Best advice: Set a prudent overall Medical FSA maximum benefit and a reasonable waiting period for enrollment of new employees.

Quickies

◆ **Flex Credit Card Coming**

ProBenefits expects to soon introduce a Flex Credit Card, linked to the FSA accounts of the participant. Charges on the card will be electronically relayed to **ProBenefits**, awaiting submission of verifying receipts to substantiate the purchase. For an “early bird” contact about the flex card, please [email us!](#)

Your Questions Answered

Is reimbursement of an FSA expense based on the date incurred or date paid?

Reimbursement is based on the date an eligible expense was incurred.

This is an opportunity to point out guidelines for FSA claims reimbursements.

The key rule: A claim is reimbursable based on the date an expense was incurred, not when billed or paid. “Incurred” means when services were performed that gave rise to the expense. *Example:* When you sit in the dentist’s chair for teeth cleaning, you incur the expense that day. It doesn’t matter what date you are billed or what date you pay the bill. This means:

- You cannot pay last year’s holdover bills with funds from this year’s FSA account.
- You cannot be reimbursed for pre-paying medical expenses.
- Interestingly, you *can* be reimbursed for an expense not yet paid! You could get your teeth cleaned, bring home the bill, submit the FSA claim, then pay the dentist with the reimbursement funds.

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