

How May FSA Forfeitures be Used?

A participant who does not use his/her entire FSA account balance during the plan year (including applicable 90-day period for submitting final claims) forfeits the excess account balance. This is the “Use it or Lose it” rule established by IRS regulations.

These forfeitures, also called “experience gains,” accrue to the employer if the total plan contributions (employee salary reductions) exceed total plan expenses (claims and admin fees).

What options does the employer have for using experience gains? Consider the following 4 options:

(1) Pay Reasonable Administrative Expenses

The employer may use the funds to cover administration fees charged by an outside administrative firm, such as ProBenefits.

(2) Reduce Premiums For Eligible Employees

For example, the employer may charge \$480 to an eligible employee for a \$500 FSA balance for the next plan year. Importantly, the reduction must be allocated on a reasonable and uniform basis to all eligible employees.



(3) Increase Coverage in the Following Year

Similar to option (2), except the employer increases FSA coverage (account balances) instead of premiums. For example, the employer may allocate \$520 in FSA balance for every \$500 contributed by an eligible employee. Again, the increase must be allocated on a reasonable and uniform basis to all eligible employees.

(4) Provide a Dividend or Refund –

The employer may use experience gains to provide dividends or cash refunds to eligible employees. Again, any refund given must be made on a reasonable and uniform basis to all eligible employees. For example, the employer may give \$100 taxable cash or check to each eligible employee who participated in the plan year that generated the experience gain. Importantly, if not given in equal amounts to all, the dividend or refund may be made in proportion to the employee’s contribution, NOT in proportion to their claims or forfeitures.

Quickies

◆ **Claims Deadline for 2004 Calendar Year Plans Is March 31**

For calendar year plans (plans ending 12/31/04), all claims must be submitted by Thursday, March 31st. After this date, remaining FSA balances will be forfeited, pursuant to IRS regulations. Please remind all FSA participants of the deadline.

◆ **Bank Account Change?**

- If an employee changes his/her bank account for payroll, please ask about whether that same change will be made for FSA reimbursements. If so, the employee should also submit a new Direct Deposit form for their FSA.

- You can find the Direct Deposit Form and all others online at www.probenefits.com.

◆ **Online Access for Employees?**

- As a reminder, your employees have access to their account 24/7 on our website.

- Surf to www.probenefits.com and select “FSA Inquiry”.

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