

\$500 Health FSA Carry Over

Great news for FSA participants! The IRS has modified the “use-or-lose” rule for Health FSAs. Now, you can carry over up to \$500 of unused FSA amounts to the next plan year to use for qualified medical expenses. This is a very significant change and will help FSA plans work better for you as the participant and help you save additional tax dollars.

If your employer elects to adopt the carry over for the current plan year, there is nothing you need to do to add the carry over to your account. If you end up with \$500 or less in unreimbursed funds after the end of the current plan year, those dollars will automatically carry forward to the next plan year.

Additional details:

- (1) \$500 is the maximum carry over amount. Any unused Health FSA amounts in excess of \$500 remaining at the end of the plan year must be forfeited. Note that the 90-day Claims Runout Period still applies. Claims incurred during the prior plan year can still be submitted up to 90 days after the plan year ends (up to the full balance and not limited to \$500). The carry over would work to protect any dollars left after the Claims Runout Period, up to the \$500 maximum.
- (2) The carry over does not affect your maximum election for the year. No matter what amount carries over from one plan year to the next, you may elect up to the maximum salary reduction for your Health FSA in the next plan year.
- (3) The \$500 carry over is not cashable and cannot be used for any other benefit offered under the plan. It can only be used to reimburse qualified medical expenses in the following year.
- (4) The carry over is not a one-time event. \$500 is the total carry over maximum that applies at the end of your plan year. Assuming you continue to be a participant, you can continue to carry over up to \$500.
- (5) Your plan may have previously included a 2.5 month grace period extending the date that claims can be incurred after the end of the plan year. The carry over has replaced the grace period.
- (6) *Note regarding HSA eligibility:* If your employer or spouse’s employer offers a High Deductible Health Plan and HSA bank account option that you intend to use in the next plan year, the carry over could impact your eligibility to make HSA contributions immediately after the end of the FSA plan year. Generally, if you carry over FSA funds into the next plan year, you would be ineligible for HSA contributions. As such, the following options are available to preserve HSA eligibility:
 - (a) If your account balance at the end of the plan year is \$0 and nothing is eligible for carry over, you would be eligible for the HSA immediately upon end of FSA plan year;
 - (b) You could elect to forfeit any FSA carry over amount to preserve HSA eligibility; or
 - (c) Your plan offers a Limited FSA option for dental/vision expenses only, and you could elect to carry over your unused FSA funds to the Limited FSA to preserve HSA eligibility.

This is a summary of the carry over to help you understand the options available to you. If you have any questions or need further information, contact us anytime (info below).