PACT ADMINISTRATIVE SERVICES CORP.

36816 N. Deerview Dr. Ste 102 PHONE: 847-265-6772
Lake Villa, IL 60046 FAX: 847-265-2373

The IRS recently announced an updated guidance that will permit insurance holders to carryover up to $500 of unused health Flexible Spending Account (FSA) dollars at the end of a plan year, putting a virtual end to the Use-It or Lose-It panic.

Here are some of the highlights of the new modification that will go into effect for the year 2014:

1. The IRS will begin allowing carryover of up to $500 from one plan year to the next plan year beginning in 2014. The amount that may be carried over to the following plan year is equal to the lesser of: any unused amounts from the immediately preceding plan year; or $500.
2. Any unused amount in excess of $500 after all current year expenses are paid, is forfeited.
3. The carryover does not affect the “run-out period” which is the period immediately following the end of a plan year during which a participant can submit a claim for reimbursement of expenses incurred for qualified benefits during the plan year. (For example, submitting a claim in February 2013 for unused 2012 FSA funds to cover medical expenses incurred in 2012).
4. When a plan allows for a carryover provision, a grace period is not permitted. Grace periods allow payment for expenses incurred within 2 ½ months of the end of the plan year. For example, with a grace period, you could use money left over from the 2012 tax year to pay for expenses incurred until March 15, 2013.
5. A FSA plan is permitted to treat reimbursements of all claims for expenses that are incurred in the current plan year as reimbursed *first* from unused amounts credited for the current plan year and, only after exhausting these current plan year amounts, is *then* reimbursed from unused amounts carried over from the preceding plan year. Any unused amounts from the prior plan year that are used to reimburse a current year expense reduce the amounts available to pay prior plan year expenses during the run-out period and must be counted against the permitted carryover of up to $500, and cannot exceed the permitted carryover.
6. The carryover of up to $500 does not count against or otherwise affect the $2,500 salary reduction limit applicable to each plan year.
7. Cafeteria plans must be amended to adopt the carryover provision and remove the grace period rule, if applicable.
8. Amendments to adopt the carryover provision generally must be adopted on or before the last day of the plan year from which amounts may be carried over.
9. For a plan year beginning in 2013, an amendment including the carryover provision may be adopted on or before the last day of the plan year that begins in 2014.

For more examples and clarification of how this modification plan will work, go to fsamodification.doc. Here you will find an explanation and example chart distributed by the IRS to help explain how to apply everyday scenarios to the new system.