

FSA Carryover: Employer FAQ

1. What is the carryover?

On October 31, 2013, the U.S. Department of the Treasury changed the “Use It or Lose It” rule, providing employers the ability to offer a carryover option which allows for up to \$500 of FSA balances remaining at the plan-year end to carry over for use during the next plan year. The carryover option is available with Healthcare and Limited Purpose FSAs.

2. If an employer has adopted the carryover, must a participant have a new-plan-year FSA for the prior year’s balance to carryover?

No. Any funds remaining in an individual’s current plan year FSA will be automatically rolled into the new plan year even if the employee didn’t elect to participate in a new plan year FSA. The participant now has the chance to spend up to \$500 of his/her carryover money on out-of-pocket healthcare expenses in the following year.

3. When will the remaining prior plan year funds carryover into the new plan year?

They will be available on the first day of the new plan year unless you enroll in a Health Savings Account (HSA). If you enroll in the HSA, your funds will carry-over into a Limited Purpose FSA. If this occurs, your funds will be available at the end of the current plan years run-out period.

4. Can employers continue to offer the 2.5 month extension for dependent care?

Yes. The carryover option only applies to Healthcare FSAs. An employer can offer grace period for dependent care and carryover for Healthcare FSA.

5. Is the carryover option for Healthcare only, Dependent Care only, or both?

The Carryover option is for Healthcare and Limited Purpose FSAs only and is not available for Dependent Care FSAs.

6. How does carryover impact run out?

It doesn’t. Use of the carryover option does not affect the ability of a Healthcare or Limited Purpose FSA to reimburse expenses incurred in one plan year during a permitted run-out period at the beginning of the following plan year.

7. Can an employer choose to have carryover apply to a Limited Purpose FSA and not a full purpose FSA?

Yes, but the plan must be clear on which benefit (the Healthcare FSA or the Limited Purpose FSA) the carryover applies.

8. Does the carryover amount count against the maximum contribution limit applicable to each plan year?

No. Participants can still choose to contribute as much as \$2,700, even if they carry over \$500 from the previous plan year.

9. How would carryover impact a participant who changes from a Healthcare FSA to a Limited Purpose FSA and vice versa?

It wouldn’t. Carryover allows amounts in a Healthcare FSA – Limited Purpose or otherwise – to carry over into the next plan year. The Carryover option will follow the participant’s choice. If a participant elects a Limited Purpose FSA for the current plan year, and has a carryover, the carryover will follow them into the Limited Purpose FSA for the new plan year. Similarly, if the participant elects a Healthcare FSA in the current plan year and has a carryover, the carryover will follow them into a Healthcare FSA for the new plan year.

However, if a participant elects to participate in an HSA for the new plan year, and currently has a Healthcare FSA, the participant should either spend all amounts in the Healthcare FSA before the plan year ends, or enroll in a Limited Purpose FSA for the new plan year so they can contribute to the new HSA on the first day of the following plan year.

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10. What is the difference between a Healthcare FSA and a Limited Purpose FSA?

A Limited Purpose FSA can only be used for vision and dental expenses. It is intended to work in conjunction with an HSA. A Healthcare FSA covers all eligible medical expenses.

11. Can an employer offer the carryover and a grace period?

No, employers cannot offer the grace period during the same plan year that offers the carryover. Employers can offer a grace period for a Dependent Care FSA while offering the carryover for a Healthcare FSA during the same plan year. Employers will need to amend their plan documents to:

- (1) Elect the carryover and specify related options; and
- (2) Remove the grace period, if previously adopted.

12. Can an employer switch between offering carryover and grace period from year to year?

Yes, an employer can make this change any year.

13. If an employer already has a grace period built into their plan, would the employees enrolled in that plan be ineligible for the carryover?

Yes, the grace period would have to be terminated in order for the carryover provision to be put in place. No plan is allowed to offer both a carryover and a grace period in the same plan year.

14. If an employer already has a grace period in their benefit plan, what action needs to be taken to change to the carryover?

The employer would need to amend their plan to terminate the grace period and elect the carryover provision. They would need to communicate this change to all employees. Your account manager can assist you with this process by calling 855-890-7239.

15. Does an employer have to offer either the grace period or the carryover?

No, an employer does not have to elect either option. Employers can choose to offer a carryover, a grace period or neither.

16. Why would an employer choose a carryover instead of a grace period?

The grace period allows the full amount of unused funds to be available for use in the first two and a half months following the end of the plan year. Unused amounts at the end of the grace period are forfeited in total. The carryover allows participants to rollover unused amounts up to \$500 for use anytime during the next plan year. The carryover is only negative to an employee with a balance greater than \$500 and eliminates the rush to spend at the end of the year. It also eliminates the most frequent barrier to participation by eligible employees who do not currently participate.

17. What is the grace period?

The grace period is an additional 2.5 months following the plan-year close to incur expenses against the previous plan year's election. This gives employees some additional time to use remaining funds. If the carryover option is elected, it will replace the grace period option.

18. Is there a minimum or a maximum amount allowed for carryover?

Employers can choose to allow a carryover of any amount up to \$500 per participant per plan year. NueSynergy encourages employers to allow the full carryover amount.

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19. When are carryover funds available for the employee?

The availability of carryover funds differs when carrying over between a Healthcare to Healthcare FSA versus from the Healthcare to Limited Purpose FSA.

Healthcare to Healthcare: The carryover amount is available to the participant on the first day of the new plan year. This means that the carryover amount is simultaneously available to pay previous plan-year expenses and current plan-year expenses during the previous plan year run-out period.

Healthcare to Limited Purpose: The carryover amount is available to the participant on the first day following the end of the run-out period. This means any current-year dental or vision claims incurred during the run-out period that were not reimbursed by a current-year limited purpose election would be reimbursed once the carryover funds are available.

20. What happens if a participant has a carryover balance, but does not re-elect a Healthcare FSA?

Employers can choose to allow participants who do not enroll in the new plan year to:

- (1) Forfeit their previous plan year balance rather than carry over; and/or
- (2) Default their carryover into an FSA for the new plan year.

21. Which account will be used first during the run-out period—the new plan year election or the carryover amount from the current plan?

Any new plan year funds will pay first and the carryover funds will pay second. Employees get the best use of their funds by having the new plan year pay first, and the carryover funds pay second.

22. Can a participant enroll in both a Healthcare FSA and an HSA? Does having carryover from a Healthcare FSA disqualify participants from contributing to an HSA?

No, participants cannot enroll in a Healthcare FSA and make contributions to an HSA. A participant must instead enroll in the Limited Purpose Healthcare FSA which only reimburses vision and dental expenses. This type of Healthcare FSA does not prevent a participant from setting up and contributing to an HSA.

If a participant elects to participate in an HSA for the new plan year, and currently has a Healthcare FSA, any funds remaining will carry-over into the participants newly elected Limited Purpose FSA at the end of the run-out period.

23. Can employers give participants the option of both the Healthcare FSA carryover (\$500) and a grace period?

No, the plan cannot have a carryover and a grace period within the same plan year. The plan may only have one or the other. However, 'run-out' periods remain unaffected. A run out period is an extended period of time during which you can submit expenses incurred during the plan year for reimbursement.

24. What happens if a participant has a carryover balance but does not enroll in, or select, any benefit?

If a participant has a carryover balance, the balance will roll into the type of account they have on record at the end of the plan year. The participant will be automatically enrolled into the same plan they were enrolled in at the beginning of the previous plan year so that any carryover funds can be made available.

For example, if Sam is currently enrolled in a Healthcare FSA and he has a carryover balance, but does not enroll in a new plan, he would automatically be re-enrolled in a Healthcare FSA.

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25. How long can funds be carried over? Are multiple year carryovers allowed?

Funds may be carried over indefinitely. There is no time limit. However, the employer may amend the plan to limit the years that carried over funds could be accessed. For example, an employee has unused funds from Plan Year 1, makes no election in Plan Year 2 and doesn't submit any claims for the Plan Year 1 amounts either. The employer could design their plan such that the PY 1 unused amounts expire at the end of the subsequent plan year.

26. If a participant is enrolled in a Healthcare FSA and their spouse is enrolled in a Healthcare FSA through their employer, can they each carry over \$500 for a total of \$1,000?

Yes. They are each eligible to carry over the full amount, for a total carryover amount of \$1,000, provided both employers offer the carryover provision.

27. If a participant has a carryover, but quits before they have used their funds, is that money then forfeited? Or will the terminated participant still have a run-out period to submit receipts for date-of-service up to their termination date?

If year-to-date contributions exceed the amount of reimbursements and there is a remaining balance, the employee has a COBRA election available for the remainder of the plan year. If they do not elect COBRA, then expenses can only be submitted up to the end of their termination run-out period after which and funds remaining would be forfeited.

28. If employees with carryover are terminated mid-year, can they take the funds with them?

Carryover funds are non-transferable. Funds are treated the same as any normal election and would be forfeited if COBRA is not elected.

29. Does an employer have to elect the full FSA plan limit to allow for the \$500 rollover or does the \$500 rollover apply to any plan max?

The carryover provision could apply to any plan maximum.

30. To be eligible to carryover funds, does an employee have to actively re-enroll for an FSA in the new year?

No. An employee who does not actively contribute to an FSA for the new plan year, but who still has funds available for carryover will automatically be re-enrolled in the same type of FSA plan for the new plan year.

31. Does an employer have to re-elect the carryover provision each year or does it remain in place until they actively elect to change it?

Once an employer elects the carryover provision it would stay in place until the employer actively amends the plan again.

32. Is there a time frame every year for the carryover funds to be used?

No. The carryover funds can be used anytime for expenses incurred in the new plan year in addition to any new elections. If any funds remain at the end of the current plan year, up to \$500 is carried over into each new plan year as long as the participant remains an active employee.