



FSA Carryover: Participant FAQ

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 \$680* 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.

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. Which will require your funds to 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.

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.

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.

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

No. Participants can still choose to contribute up to the allowed annual limit, even if they carry over the full amount allowed from the previous plan year.

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.

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.

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.

*Carryover limits can vary based on plan design and changes to IRS limits.



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

While the overall maximum carryover amount is set by the IRS, your maximum and/or minimum carryover amounts are determined by your plan.

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.

Which account will be use 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.

If a participant is enrolled in a Healthcare FSA and their spouse is enrolled in a healthcare FSA through their employer, can they each carryover up to the full IRS max?

Yes. Both spouses are each eligible to carryover the full amount provided both employers offer the carryover provision.

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.

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

Depending on the plan design, if a participant has a carryover balance, available funds 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.

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.

**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.

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 \$680 is carried over into each new plan year as long as the participant remains an active employee.

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.

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Can employers give participants the option of both the Healthcare FSA carryover 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.

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

Funds may be carried over indefinitely. There is no time limit. However, your plan may 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.

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