



Health FSA Rollover - Frequently Asked Questions

On October 31, 2013 the IRS issued Notice 2013-71 as a modification of the "Use-or-Lose" Rule for Health Flexible Spending Arrangements.

What is the modification?

The Treasury Department and the IRS have determined that it is appropriate to modify the use-or-lose rule to permit the use of up to \$500 of unused amounts in a health FSA in the immediately following plan year.

Does the employer have the option to adopt or not adopt the new rule?

An employer, at its option, is permitted to amend its plan document to provide for the carryover to the immediately following plan year up to \$500.

Can an employer specify a lower limit to rollover?

Although the maximum unused amount allowed to be carried over in any plan year is \$500, the plan may specify a lower amount as the permissible maximum (and the plan sponsor has the option of not permitting any carryover at all).

When is the modification effective?

An employer may adopt the carryover provision (of up to \$500) to health FSAs for the current \$125 cafeteria plan year.

What if we have a grace period?

A plan that incorporates a carryover provision may not also provide for a grace period in the plan year to which unused amounts may be carried over.

Does the \$500 rollover reduce my \$2,600 contribution?

In addition to the unused amounts of up to \$500 that a plan may permit an individual to carry over to the next year, the plan may permit the individual to also elect up to the maximum allowed salary reduction of \$2,600 (adjusted for inflation). Thus the carryover of up to \$500 does not count against or otherwise affect the indexed \$2,600 salary reduction limit applicable to each plan year.

With the run-out period when are amounts rolled over?

For ease of administration, a 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, as 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:

- (a) reduce the amounts available to pay prior plan year expenses during the run-out period,
- (b) must be counted against the permitted carryover of up to \$500, and
- (c) cannot exceed the permitted carryover.

The carryover of up to \$500 may be used to pay or reimburse medical expenses under the health FSA incurred during the entire plan year to which it is carried over. For this purpose, the amount remaining unused as of the end of the plan year is the amount unused after medical expenses have been reimbursed at the end of the plan's run-out period for the plan year.