



Benefits Administration Letter

Number: 14-801

Date: August 27, 2014

**Subject: The Federal Flexible Spending Account Program (FSAFEDS) Changes:
 Adopting Carryover and Reducing Minimum Election for 2015**

Purpose

To notify agencies and participants that the Federal Flexible Spending Account Program (FSAFEDS) is implementing two significant changes effective for the 2015 plan year.

- Health care and limited expense flexible spending accounts (FSAs) will no longer have a grace period; instead, qualifying participants will be able to carry over up to \$500 of unused funds to the next plan year. Dependent care FSAs will still have a grace period and will not have carryover to the next plan year.
- The minimum annual election for all three types of FSAs will be reduced from \$250 to \$100.

Background

Grace Period

FSAFEDS currently has a grace period which adds 2-1/2 months to the end of the annual benefit period for all three types of FSAs. During this grace period, participants can incur eligible expenses for reimbursement from their prior year's balance.

IRS Rule Change

In October 2013, the Internal Revenue Service (IRS) changed the FSA forfeiture rule (use-or-lose rule) by allowing carryover for health care FSAs. FSA programs can now allow their participants to carry over up to \$500 of unused health care FSA funds from one plan year to the next. The IRS restricts carryover to health care FSAs that are not using a grace period. Programs must eliminate the grace period for their health care FSAs before they can implement carryover.

Transitioning from the Grace Period to Carryover

2014 Participants – No Changes

Qualifying 2014 participants will still have the grace period in the first 2-1/2 months of 2015.

Participants have from January 1, 2014 through March 15, 2015 to incur eligible expenses for reimbursement from their 2014 account. Participants must be employed by an agency that participates in FSAFEDS and actively making allotments from their pay through December 31, 2014 to participate in the grace period.

Participants have until April 30, 2015 to submit claims for reimbursement from their 2014 account.

2015 Participants – Health Care and Limited Expense Health Care (LEX) FSAs

Health care and limited expense health care (LEX) participants will **not** have a grace period in the first 2-1/2 months of 2016. These participants will have from **January 1, 2015 through December 31, 2015** to incur eligible expenses for reimbursement from their 2015 account. They will have until April 30, 2016 to submit claims for reimbursement from their 2015 account.

Participants can carry over up to \$500 of unused 2015 health care or LEX elections to 2016. Carryover funds can be used for reimbursement of eligible expenses incurred in 2016. Carryover funds can also be used for reimbursement of eligible expenses incurred in 2015 until the claims submission deadline of April 30, 2016.

Participants must be employed by an agency that participates in FSAFEDS and actively making allotments from their pay through December 31 to use carryover. Participants must also reenroll in a 2016 health care or LEX FSA for at least the minimum annual election to use carryover.

2015 participants who do not re-enroll in a health care or LEX FSA for 2016, or who are not employed by an agency that participates in FSAFEDS and not actively making allotments from their pay through December 31, 2015, will not be eligible to use carryover.

Participants ineligible for carryover **will forfeit all FSA elections** for which they did not incur eligible expenses during 2015 and file claims by April 30, 2016.

2015 Participants – Dependent Care FSAs – No Changes

2015 dependent care participants still have the grace period in the first 2-1/2 months of 2016. Participants have from January 1, 2015 through March 15, 2016 to incur eligible expenses for reimbursement from their 2015 account. Participants must be employed by an agency that participates in FSAFEDS and actively making allotments from their pay through December 31, 2015 to participate in the grace period.

Participants have until April 30, 2016 to submit claims for reimbursement from their 2015 account.

Minimum Election Reduction

FSAFEDS is reducing the minimum annual election from \$250 to \$100 for all three types of

FSAAs beginning with the 2015 plan year. Reducing the minimum makes the FSAFEDS benefit accessible to more employees. It also complements the switch to carryover by further encouraging first-time enrollment in FSAFEDS. Our experience has been that once employees try FSAFEDS with a low initial election, they quickly use up their funds and increase their election the next year.

Further Guidance

ADP, the third party administrator for FSAFEDS, will be communicating these changes to participants and eligible employees on its website, by email, and in visits to agency health fairs. Employees with questions about these changes should contact ADP at 1-877-FSAFEDS (372-3337) or FSAFEDS@adp.com.

Sincerely,

John O'Brien
Director
Health and Insurance