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\$500 Health FSA Carryover Employer Fact Sheet

What is the \$500 Carryover Provision?

Treasury Notice 2013-71 issued on October 31, 2013 modifies the FSA “use-it-or-lose-it” provision to allow an *optional* limited carryover of unused Health FSA funds. Subject to certain restrictions as detailed below, employees may carry over up to \$500 of unused funds to the next FSA plan year. This is a significant improvement to the benefit. Our clients have experienced increased enrollment in the plan which means increased tax savings for the employer!

Do all Health FSA plans have the \$500 carryover?

No, it is not automatic. Employers must have restated or amended their written FSA plan to add the carryover provision. If your Health FSA previously included the 2 ½ month Extended Grace Period (EGP), you must have dropped it in order to adopt the \$500 carryover provision. Note that the \$500 carryover does not apply to Dependent Care FSA’s.

How do we determine who gets the carryover?

Carryover applies to all Health FSA participants who were actively employed as of the last day of the plan year. If an employee terminates before the end of the plan year, they are not entitled to carryover of unused funds from that Plan Year unless they were eligible for and elected COBRA continuation of their FSA through the end of the year.

Does the employee need to be enrolled in the new plan year Health FSA in order to receive carryover?

No, they do not need to participate in the new Plan Year FSA. If they are not in the new Plan Year FSA, a benefit will automatically be created for them when we do the carryover of unused funds.

What is the *minimum* and *maximum* amount that will be carried over?

There is no minimum carryover amount. The maximum that can roll over from year to year is **\$500**. Note that carryover amounts are not cumulative. At the end of each Plan Year, no more than \$500 can be carried over to the next plan year. Funds in excess of \$500 are forfeited.

How does the \$500 carryover affect the Health FSA plan maximum?

Carryover amounts do not affect the Health FSA plan maximum. An employee could therefore have a \$3,100 election for the 2017 plan year after carryover is executed.

How does participation in a high-deductible medical plan and Health Savings Account (HSA) affect carryover?

Per IRS regulation, individuals who are covered under a general-purpose Health FSA cannot contribute to an HSA. If an employee has unused Medical FSA funds, but the employee (*or their employer or spouse*) is contributing to an HSA in the next plan year, the carryover funds **must** be either **1)** put in an HSA-compatible limited-purpose Health FSA that reimburses only dental and vision, or **2)** declined (*employee waives their right to carryover*) in order for the individual to remain HSA eligible. For additional information about a Limited Purpose Health FSA, please review our [flyer](#) or contact your Client Service Manager.

When carryover is executed, we will automatically put unused funds in the same type of FSA that the employee had in the prior year (*e.g. General Purpose Health FSA to General Purpose Health FSA, Limited Purpose Health FSA to Limited Purpose Health FSA*) unless you instruct us otherwise.

When will unused funds be carried over to the new plan year?

For calendar year clients, carryover of unused funds will be executed in late April/early May following the end of the claim runout period. Employees have 90 days after the end of a Plan Year to submit claims incurred in the prior year (*until March 31st for calendar year plans*). Before we close a Plan Year to determine remaining balances, we conduct an audit to ensure that all claims were paid appropriately. Additionally, before carryover is executed, the client needs to verify active status and HSA participation.

What happens if the FSA participant terminates employment after the end of the plan year? How is carryover affected by COBRA regulation?

Note that the regulations do not fully address many aspects of Health FSA carryover and COBRA. Our response below is based on the information that we have as of April 2016 and is subject to change and further interpretation should additional guidance be issued.

Participants who terminate employment after the end of the Plan Year are eligible to receive carryover of unused Health FSA funds from the prior Plan Year. Carryover funds may only be accessed through the participant's last day of work. However, if the employee is entitled to and elects COBRA continuation of their current year FSA, access to any carryover funds will extend to the end of their COBRA coverage period.

If NEO is your COBRA administrator, we will track COBRA eligibility for you and distribute the required notices.

Who can I contact if I have questions?

Contact your NEO Client Service Manager or call 330-864-0690/1-800-775-3539.

Updated March 2017

- Flexible Spending Account Administration
- Health Reimbursement Account Administration
- Health Savings Account Consulting & Compliance
- COBRA Administration

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