

Frequently Asked Questions

Section 125 Flexible Spending Account Carryover

1. What has changed?

The IRS amended the use-it-or-lose-it rule to allow a limited amount of unused funds to carryover at the end of the plan year. IRS notice calls it “carryover”.

2. How much can carryover?

Up to \$500 in unused funds can carryover into the following plan year. While the employer can elect to allow less than \$500 to be carried over, the same limit must apply to all plan participants.

3. Does the new carryover rule apply to limited-purpose or post-deductible Flexible Spending Accounts?

Yes, under IRS guidance, the new rule applies to all health FSAs.

4. Does the new carryover rule apply to Dependent Care Flexible Spending Accounts?

No, dependent care FSAs are independent of the health FSA carryover ruling.

5. If carryover is offered, does this change the \$2,500 maximum annual election?

No, if the full \$500 were to carryover into the following plan year and you elected to contribute the full \$2,500 in that year, you would have a total of \$3,000 available for reimbursement of eligible healthcare expenses that year.

6. Does my carryover FSA affect my eligibility to participate in a Health Savings Account (HSA)?

Participants in a traditional health FSA are not eligible to contribute to an HSA, but employers can enable unused funds to be carried over into a limited-purpose FSA to preserve your HSA eligibility.

7. Does the carryover option affect the run-out period?

No, claims may be filed during the run-out period for expenses incurred during the plan year. This will be useful if you have more than \$500 in your FSA account at the end of the plan year.

8. How does the carryover apply to a short plan year?

Carryover funds for a short plan year are allowed.

9. How is the carryover amount calculated?

The carryover amount is determined after all expenses have been reimbursed for the plan year (after the end of the plan's run-out period). For example, if a plan has a run-out period that ends on March 31 of the following plan year, the amount carried over for a plan year is equal to the amount from that plan year remaining in the participant's health FSA after March 31 (up to the carryover amount elected by the employer, but no more than \$500). Any unused amount in excess of \$500 (or if lower, the carryover amount elected by the employer) is forfeited.

10. How long does a covered individual have to use the carryover funds?

According to the IRS ruling, "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." The expense must be incurred by the last day of the plan year into which the funds were carried over. However, if you terminate employment, then you are eligible for reimbursement for claims with dates of service on or before your termination date?

11. In what order are the funds utilized for new claims?

According to the guidance examples, current year funds should be used prior to any carryover funds being used.

12. Can I use my benefits debit card to access the carryover funds?

Yes, the debit card will access current year funds and carryover funds for unreimbursed healthcare eligible expenses.

13. Are carryover amounts cumulative?

No, the carryover amount from one year to the next is capped at \$500. For example, if you have \$500 that carried over from 2014 to 2015, and then you contribute \$500 in 2015, but do not file any claims for 2015, the carryover amounts cannot be combined to \$1,000 to be carried forward into 2016—only \$500 can be carried forward.

14. What happens to the carryover if my employment is terminated?

Upon termination or resignation mid-year, eligible funds are not accessible. However, an employee who is terminated or resigns may submit claims incurred while employed within run-out period.