Rollover vs Grace Period

Employees can generally allow employees to transfer a maximum amount from their unused FSA into their next years FSA.

-OR-

Employees may allow employees a grace period until March 15 of the next plan year to use their previous plan year FSA funds.

The key difference being that the run-out period is to file claims from the previous year, while the FSA grace period is an extension of your current plan year to allow you extra time to spend down your remaining funds.

Rollover

Employees can rollover up to IRS rollover limits of FSA contributions left at the end of the plan year to use in the next plan year with no penalty.

Pros+

- Less wasteful year-end FSA spending by employees to avoid losing funds.
- FSA funds rollover year after year up to IRS maximum.
- Limit the fear of losing FSA funds.
- When “use-or-lose” rules are in full force, employees tend to feel obligated to stock-up on medical supplies such as band-aids at the end of the year.
- Over 65% of Employers use the rollover feature.

Grace Period

Employees can use their entire unused FSA balance for eligible expenses incurred in the first 2 1/2 month of the new plan year. Any funds unused are forfeited.

Pros+

- The grace period gives employees a little more time to spend their unused FSA funds, which normally expire at the end of the year. Claims submitted during the grace period automatically come out of the prior year's remaining funds before drawing from the current plan year.

Note: Limitations when implementing HSA. Employees may not be eligible for HSA for an extra three months unless a Limited FSA is implemented.

Frequently Asked Questions FSA

What is a Flexible Spending Account (FSA)? An FSA is an employer-sponsored plan that allows to deduct dollars from your paycheck and deposit them into a special account that's protected from taxes. FSA accounts are exempt from federal taxes, Social Security (FICA) taxes and, in most cases, state income taxes. The money in an FSA can be used for eligible health and/or dependent care expenses that are incurred while you are participating in the plan.

When does my FSA become effective? Your FSA becomes effective on the date you enroll. Unlike other plans, an FSA does not start on your hire date. Contributions to your account begin as soon as administratively possible after you enroll.

How do I participate in an FSA? To participate, you must enroll within 31 days of your date of hire, or elect to participate during annual Open Enrollment. If you have a life event change (for example, birth or adoption of a child), then you may be able to enroll without waiting for annual Open Enrollment, if you enroll within 31 days of the change.

Who can put money in my FSA? You and your employer, although employers rarely contribute to employees' FSAs.

What does it mean to incur expenses? The IRS considers expenses to be "incurred" at the time you receive medical care or dependent care--not when you are formally billed or actually pay for services.

Who qualifies as an eligible dependent? An eligible dependent is any dependent for which an employee pays a provider to care for him/her while they are at work or looking for work. The dependent must be under the age of 13 or incapable of taking care of themselves, and live in the employee's home for more than half of the year.

How often can I request reimbursements? Reimbursements can be requested as often as qualified expense are incurred. Expenses must be incurred during the plan year and the reimbursement must be requested before the end of the run-out period (or grace period if applicable).

Can I change my election or stop contributing money to my FSA at any time during the plan year? Federal regulations state that once you have enrolled in an FSA, you cannot change your election amount unless you have a qualifying life event. Your employer can give you a list of permitted change events.

Frequently Asked Questions FSA

How much will I really save in taxes by contributing to an FSA? Generally, contributions you make to your FSA are not subject to federal or social security taxes. In most instances, there are no state taxes taken out either. The amount you may save depends upon:

- The amount you put into your FSA
- The tax percentage you would normally pay on that money (tax bracket) Let's say you want $2,000 taken out of your paycheck this year to put into your FSA. The money you direct to your FSA is taken out of your check before taxes are taken out. That reduces your taxable income by $2,000. Let's say you normally pay 30 percent in federal, social security and state taxes on your income. In this example, you would enjoy a tax savings of 30 percent of the $2,000. In other words, you could get a $600 tax savings on the $2,000 you directed to your FSA.

FSA Rollover w/Runout

What happens if I have money remaining in my account at the end of the year? If your employer elects the rollover option, Employees are now able to roll over remaining funds into the next plan year up to IRS Maximum ($610.00 for 2023 to 2024). This rollover means enrollment in an FSA is much less risky. This gives you more flexibility to spend your FSA money when you need it. You can use it for necessary out-of-pocket healthcare expenses, rather than feeling pressured to engage in last minute and potentially unnecessary spending at the end of the year or grace period. Employers often allow employees a period of time in the new plan year to file claims. The claims MUST be incurred in the actual plan year.

FSA Grace Period

What happens if I have money remaining in my account at the end of the year? If your employer elects the Grace Period option, your time to incur claims has been stretched. A Grace Period, which runs from January 1 through March 15, provides you with an extra 2 1 /2 months to spend last year's money. Now your employees have longer to spend the money they put in last year's Flexible Spending Account but haven't claimed. They have until March 31 to submit claims against last year's account. After March 31, any money left in last year's account is lost.

You Enroll in FSA

Jan 1-Dec 31 2022

Grace Period

You Enroll in FSA

Jan 1-Dec 31 2023

Claims incurred during the plan year are paid from your FSA balance.

Claims incurred during the Grace Period (Jan 1-Mar 15) are paid either out of 2022 funds (if funds are available) or 2023 funds (if 2022 funds are depleted).

In general claims incurred during the plan year are paid from your FSA balance.

Exception: If you incur claims between Jan 1-March 15 AND have a balance from the previous plan year, claims incurred are paid from your previous FSA balance.

During the Grace Period you may submit claims for last year's expenses as well as from the new plan year. All these claims will be paid from last year's money until it is gone or the Grace Period is over. For example, you have $200 left in your FSA on the last day of the plan year. Early in the new plan year, you receive a bill for $50 from your dentist for services received last year and a bill for $350 from an urgent care for services received this year. The two bills total $400. If you have elected a contribution amount that exceeds the claim, the plan pays both claims.