

Health Care FSA Carryover

In late 2013, the U.S. Department of the Treasury modified the “Use It or Lose It” rule which required any remaining balance in a health care flexible spending account (FSA) to be forfeited at the end of the plan year. The new rule gives employers the option to allow employees to “carry over” up to \$500 of the unused FSA balances remaining at the end of a plan year. As a result, the employee would no longer forfeit unused health care FSA elections under \$500.

The City’s Human Resources Department is proposing an amendment to the City of Minneapolis Minneflex Plan to provide the health care FSA carryover provision effective January 1, 2016. Health Care FSA contributions elected for the 2016 plan year would first be eligible for the carryover in 2017.

Frequently Asked Questions

Do carryover funds affect the health care FSA contribution maximums?

No. Carryover funds are in addition to the annual limit on the health care FSA contributions (currently \$2,550).

When will the remaining prior plan year funds carryover into the new plan year?

Carryover funds will be available on the first day of the new plan year. However, the amount of the carryover will not be determined until the end of the run-out period for the previous plan year.

During the run-out period, which account will be used first – the 2017 account or the carryover amount from the 2016 account?

The 2017 (current) account will pay first and the 2016 (carryover) account will pay second. After the run-out period, any amount between \$25 and \$500 remaining in the 2016 will be added to the 2017 account balance.

Does an employee need to elect an FSA for the following plan year to have the FSA funds carryover?

No.

Why aren’t amounts less than \$25 eligible for carryover?

The administrative fees and managerial tasks associated with accounts less than \$25 would exceed the limited value provided to an employee.

Is the carryover option available for the dependent care FSA?

No, the carryover option is for the health care FSA only.

Example:

- For 2016, John elects to contribute \$1,000 to his health care FSA. As of 12/31/2016, his 2016 plan year balance is \$400.
- For 2017, John also elects to contribute \$1,000 to his health care FSA.
- On 3/31/2017, John submits a claim with a date of service of 2/1/17 for \$200. This claim will be paid out of the 2017 health care FSA funds and will leave a balance of \$800 in the 2017 health care FSA.
- On 4/15/17 (the end of the run-out period for 2016 FSA claims), \$400 will carryover from the 2016 health care FSA and will be added to his 2017 balance of \$800 for a total of \$1,200.