

Quick Reference to FSA Rollover

An employer's guide

The Department of Treasury issued [Notice 2013-71](#) permitting plan sponsors of flexible spending accounts (FSAs) to allow a limited rollover of up to \$500 for Medical FSA funds.

What is the FSA Rollover? Employers now have the option to allow participants to roll over up to \$500 of unused Medical FSA funds at the end of the plan year to the next plan year.

What changes in enrollment can I expect by adopting the rollover? Based on early statistics, employers, who adopted and promoted the FSA rollover, experienced an average participation increase of 30% and an average election increase of 10%. This translates to even greater savings for you and your employees. Here is a quick example of the savings:

| | Current | Potential Savings Opportunity with \$500 rollover |
|----------------------------|-----------------|---|
| Eligible Participant | 500 | 500 |
| No. of Participants | 150 | 195 |
| Ave. Election per Employee | \$1,250 | \$1,375 |
| Total Amount Withheld | \$187,500 | \$268,125 |
| x FICA Rate | 7.65% | 7.65% |
| Employer FICA Savings | \$14,344 | \$20,512 |

Does the rollover impact an FSA election for the following year? No. The rollover amount of \$500 does not impact the maximum election for the following plan year. (e.g. If you have a maximum election limit of \$2,500 and a maximum rollover of \$500, a participant could have access to up to \$3,000 for the next plan year.)

Are we required to offer the rollover option? As the plan sponsor, you have the option to allow the rollover. If you decide to offer the rollover for a plan, you must make it available to all participating employees in a plan.

Can I offer the Grace Period and the FSA Rollover? No. Plans which allow for a Grace Period are not permitted to also adopt the rollover provision. You may amend a current plan to adopt the rollover instead.

If I offer the FSA Rollover for the Medical FSA, can I still offer the Grace Period for the Dependent Care FSA? Yes. As the plan sponsor, you have the option of keeping a Dependent Care Grace Period while also allowing the rollover for the Medical FSA.

How does the rollover affect employees who are enrolled in an FSA and intend to enroll in an HSA for the next plan year? The FSA rollover can affect eligibility for an HSA. HSA regulations prevent a participant from having ineligible coverage (including a Medical FSA) while contributing to an HSA. The participant has two primary options at this time.

- Spend down the FSA.** If an employee spends down the FSA to \$0 by the end of the plan year, he/she will be eligible for the HSA on the first day of the plan year.
- Elect a Limited Medical FSA.** If the employee elects a Limited Medical FSA in the following plan year, the FSA funds will automatically rollover into the Limited Medical FSA. Since a Limited Medical FSA is considered accepted coverage, the participant will remain HSA eligible.

Additional guidance is needed to determine if an individual could opt-out of the rollover to become HSA eligible.

If an employer has adopted the rollover, does a participant need to make an election in the new year to receive FSA funds from the prior year? No. Any eligible amount remaining in an individual's Medical FSA will be automatically rolled into the new plan year.

How do we take advantage of the rollover? To utilize this new rollover provision, the Medical FSA must be amended. Please reach out to your assigned Account Executive or email AE@benefitresource.com to discuss things further.

For more information regarding how to take advantage and maximize the \$500 rollover, please email: AE@BenefitResource.com.