Precision Administrators, Inc.

Medical FSA – Grace vs. Rollover Explained

A company can elect to have Grace **OR** Rollover. *You cannot have both.* If the company elects Rollover, it is important to remember that it does **NOT** apply to Dependent Care and is not calculated until the Run-Out Period has ended.

Run-Out Period

Whether or not a company elects the Grace period or Rollover option, the Run-Out period still applies. The Run-Out period is an extension of time (typically 90 days) that provides the participant additional time to **submit** valid expenses that were incurred **during** the plan year.

Grace Period

The Grace Period refers to a 75-day extension that takes place immediately following the close of the plan year (i.e. Groups running January 1st thru December 31st – this would place the end of the Grace period at March 15th). This period of time allows the participant to **incur** expenses beyond the plan's end date. Remember, participants still have until the end of the Run-out period to submit valid claims.

During the Grace period, claims will automatically draw from any remaining funds from the previous year's election before tapping into the current year's election.

First In/First Out

It is important to keep in mind that claims are processed as received. So valid claims submitted during this period with dates of service incurred during the current year's plan should always be submitted AFTER all previous year's claims have been submitted first. This is to allow a participant to maximize their funding potential (i.e. Participant incurs a valid $400 claim during the new plan year and submits the claim for reimbursement. This claim is then paid in full drawing from the previous year's election [assuming there were remaining funds] and exhausts the benefit. At a later date, the same participant finds a valid claim they forgot to submit from the previous plan year. The previous year's funding was exhausted; therefore, this claim would no longer be eligible for reimbursement).

Rollover

Rollover is a Federally Mandated amendment to the "use it or lose it" rule. When a company elects this option, employees still have the Run-out period to submit valid expenses, but no longer have the Grace period to incur additional expenses.

Instead, participants that elected the Rollover option have the ability to rollover (roll) up-to $500 from their previous plan years balance to the new plan year. The Rollover option does not impact the IRS maximum annual contribution limits (i.e. a participant elects the maximum federal limit, $2,700, in the new plan year but has $500 remaining from the previous plan year. The participant

can rollover the remaining $500 from the prior plan year, to the new plan year, and have access to an available balance of $3,200 [using the figures provided above]). It is important to note that a participant is NOT required to make a new election in order to have access to their rollover funds. If the participant decides not to participate in FSA for the new plan year, they still have access to their rollover funds.