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Robert Moser, MD, Secretary
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MEMORANDUM

TO: Health Care Commission
Jim Clark
J. Scott Day
Steve Dechant
Sandy Praeger

FROM: Mike Michael

DATE: February 12, 2014

SUBJECT: **Approval of Health Care Flexible Spending Account Rollover Option**

The State Employee Health Plan (SEHP) established Health Care Flexible Spending Accounts (HCFSAs) and Dependent Care Flexible Spending Accounts (DCFSAs) authorized under Internal Revenue Code 125 and 129 effective February 1, 1991. Flexible Spending Accounts allow employees to set aside funds from their paycheck before taxes are applied; employee funds in an FSA must be spent for qualified services during that calendar year or are forfeited. This is commonly referred to as the use it or lose it provision.

In 2005, the IRS provided employers the option of allowing a "grace period" (an additional 2 ½ months following the end of the plan year) for employees to use any remaining funds. The SEHP implemented this option in Plan Year 2006.

In late 2013, the IRS released Notice 2013-71 outlining a new option to allow for a limited amount of unused health care FSA funds to be rolled over. Employers may choose to allow up to a maximum of $500 in unused funds to be rolled over to the following plan year. The rollover amount would be available to pay for health care services during the entire next plan year. An employee would also still be eligible to contribute an additional $2,500 (current maximum annual contribution allowed) to their HCFSA during that same plan year.

An employer cannot offer both the grace period and the rollover option. An analysis was done comparing the current grace period option with the new rollover option for plan year 2009 to the present to see which option would provide a better benefit to the employees. The attached document shows that, in each plan year, the rollover option would have resulted in more employees having access to their funds for a longer period, potentially reducing the amount of lost contributions, compared with the grace period method. The 2013 results are still pending, as the grace period does not end until March 15, 2014.

<u>Recommendation</u>:

Staff recommends that the rollover option be adopted to replace the current grace period option beginning with Plan Year 2015.