

Medical Care and Dependent Care Flexible Spending Accounts (FSAs) Grace Period Questions & Answers

Internal Revenue Service Notice 2005-42 permits a plan to establish a grace period of two months and 15 days following the end of each plan year during which unused contributions in either your Health Care or Dependent Care Flexible Spending Account may be reimbursed for qualifying expenses incurred during the grace period.

Therefore, since the State of Michigan's Flexible Spending Account (FSA) plan year ends on December 31st, you may incur qualified expenses through March 15th of the following year and use any remaining funds from your previous plan year account(s) as long as you are a participant in the Health Care or Dependent Care FSA and are still employed with the State of Michigan on the last day of the plan year.

The grace period should not be confused with the run-out period, which is the period during which you may submit claims for reimbursement out of your prior plan year's account. The State of Michigan's run-out period ends on April 15th; meaning you will have until April 15th to submit claims for reimbursement for expenses for the prior plan year.

The following are some basic questions and answers to help you understand how Internal Revenue Notice 2005-42 may affect your Health Care and Dependent Care FSAs.

1. What happens if I have money left in my 2011 FSA during the grace period?

If you have a 2011 FSA and have money left in your account after December 31, 2011, you may submit claims for expenses you incur from January 1, 2012 through March 15, 2012. Simply pay for the expense and submit an [ADP claim reimbursement form](#) to ADP by April 15, 2012. Your eligible claim(s) will be paid up to the balance remaining in your 2011 account.

Note: If you have an ADP Health Care Debit Card, it will be turned off December 31, 2011.

2. Should I include the grace period when calculating my future annual goal for my FSAs?

You should continue to use only the calendar year (12 months) for calculating expenses for your FSAs. The Internal Revenue Service (IRS) grace period is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

3. What happens if I do not seek reimbursement for the prior plan year by the grace period deadline?

If an ADP claim reimbursement form is not submitted to ADP by the April 15th deadline for the prior plan year's account, funds remaining in your account will be forfeited.

Exception: Under the "Heroes Earnings Assistance and Relief Tax Act of 2008" (H.R. 6081), employees called to active military duty for a period of at least six months would be allowed to receive a taxable distribution of their Health Care FSA funds to avoid forfeiture. This law is considered an optional enhancement to the Health Care FSA plans. The State of Michigan has adopted this enhancement to the plan.