



Employee FAQ:

2 1/2 Month Grace Period

What is it?

The IRS amended the use-it-or-lose-it rule to allow employees to incur new expenses towards the plan year election for an additional 2 months and 15 days after the plan year ends. This is commonly referred to as the “2 1/2 Month Grace Period.” The Grace Period is different than the run-out period. The run-out period only allows an employee to submit claims that were incurred during the applicable plan year. The Grace Period permits you to use the remaining balance to pay for claims during the following year.

How much of my remaining funds can I use?

You may use all of your remaining funds during the 2 1/2 Month Grace Period.

Does the Grace Period rule apply to limited purpose or post-deductible FSAs?

Yes. Under IRS guidance, the new rule applies to all health FSAs.

Does the Grace Period rule apply to dependent care FSAs?

Yes. Under IRS guidance, the grace period rule applies to dependent care FSAs.

Does the Grace Period affect my eligibility to participate in a health savings account (HSA)?

Participants in a traditional health FSA are not eligible to contribute to an HSA, therefore you are required to use all remaining funds from a traditional FSA prior to making payroll contributions to an HSA. If your employer offers a limited purpose FSA, they may allow you to transfer any remaining balance from the traditional health FSA to the limited purpose FSA. Check your plan documents to determine your employer’s policy for participants enrolling in an HSA.

How does the Grace Period apply to a short plan year?

Use of a Grace Period for a short plan year is allowed.

What happens if my employment is terminated during the Grace Period?

If you leave the company during the Grace Period, you will no longer be eligible to incur new expenses. You can still submit expenses incurred prior to termination through the end of the termination run-out period. Check your plan document for the length of your run-out period after termination.

Does the Grace Period option affect the run-out period?

No. You will still be able to file claims during the run-out period for expenses incurred during the plan year. The 2 1/2 Month Extension runs concurrently with your run-out period. Check your plan document for the length of your run-out period..

Do I have to elect a health FSA for the following plan year to use my remaining funds during the Grace Period?

No, but you will be limited to the remaining funds left from your previous year’s election. Although you may not be contributing in the Grace Period, you remain a participant until the end of the Grace Period or your employment is terminated.

How long do I have to use my remaining funds?

You may use your remaining funds for 2 Months and 15 days immediately following the end of the plan year. For a plan year running from January 1 - December 31, you may use funds towards new expenses until March 15. However, if you terminate employment, then you are only eligible for reimbursement for claims with dates of service on or before your termination date.

In what order are funds utilized for new claims?

According to the guidance examples, previous year funds will be used prior to funds being used from the new plan year.

Can I use my benefits debit card to access funds during the Grace Period?

Yes. Card swipes during the Grace Period are recognized by our administrative software system. These swipes will be applied to your leftover balance from the previous plan year, if applicable, until those funds are exhausted. Once your prior year balance is depleted, any other card swipes within the plan year will be applied to your new plan year balance.

What happens to any unused funds after the end of the Grace Period?

Any money you do not use from a reimbursement account for expenses incurred during the plan year and the Grace Period will be forfeited. The forfeited funds will be returned to your employer to offset the cost of the program. If you plan carefully, you can avoid being affected by this IRS restriction.

