SABC FLEXNews November 1, 2013

SOUTHERN ADMINISTRATORS AND BENEFIT CONSULTANTS, INC
P.O. BOX 2449 * MADISON, MS 39130-2449 601-856-9933

GREAT NEWS! The IRS and Treasury Offer Options for Unreimbursed Medical Spending Account Rollover

The IRS released Notice 2013-71 that allows an option for a $500 rollover from prior year funds to the current year funds for Unreimbursed Medical spending accounts only, instead of the currently allowed 2 ½ month grace period. Therefore, employers can now choose which option they wish to offer their employees, the 2 ½ month grace period or up to a $500 rollover. Plans are not allowed to offer both. This does **not** apply to Dependent Care or Premium Reimbursement Accounts.

What does this mean?

Beginning with the 2013 plan year, employers may amend their plan to allow the rollover option, as long the plan is amended prior to December 31, 2013, or before the end of your 2013-14 plan year. In addition, the plan would have to eliminate the 2 ½ month grace period.

The rollover amount will not affect the $2500 limit. In others words, an employee could elect $2500 for the 2014 plan year, and rollover $500 from 2013, which gives them $3000 for the 2014 plan year. Of course, employees that terminate in the prior plan year with left over monies would forfeit those funds.

The $500 rollover will occur after the run out period for submitting claims has expired, depending on your plan design (usually 30 to 60 days after the plan year ends). In some cases, expenses that incur during the run out period can be paid with the new year funds, as well as prior year funds (see example 2).

Examples:

Example 1.

Employer XYZ amends plan for the 2014 plan year to allow for a $500 rollover. The plan allows employees up to February 28, 2015, to submit claims for expenses incurred in the 2014 plan year. Employee A elects $2500 for the 2014 calendar plan year. After February 28, 2015, Employee A has $800 remaining in their 2014 account. Employee A, elects $2500 for the 2015 plan year. Because the plan allows for a $500 rollover, Employee A, will forfeit $300 and will roll $500 to the 2015 plan year. Employee A, will have $3000 for the 2015 plan year ($2500 + $500).

Example 2.

Employer ABC amends plan for the 2014 plan year to allow for a $500 rollover. The plan allows employees up to February 28, 2015, to submit claims for expenses incurred in the 2014 plan year. Employee A elects $2500 for the 2014 calendar plan year. Employee A submits claims and is reimbursed $1,700 for 2014 expenses. This leaves $800 in Employees A 2014 plan year account. Employee also elects $2500 for their 2015 plan year. In January of 2015, employee A submits a claim that incurred in January of 2015 for $2800. Since the run out period for 2014 is February 28, 2015, and has not occurred, the notice allows the plan to reimburse the full $2500 for the 2015 election and $300 of the remaining $800 left over in the 2014 plan year. **Note:** <u>The notice requires in this example, that the 2015 election must be used first, before any of the remaining 2014 election is allowed.</u>

Administrative Issues for 2013 plans

If you wish to change your current 2013 plan year, you must notify us in writing by December 1, 2013, so that you can properly notify your employees and we can prepare administratively for the change. Keep in mind that if you have the 2 ½ month extension, your employees enrolled with that understanding. So you may want to wait until the 2014 plan year to adopt this option. If you do decide to amend your 2013 plan, you must notify all Unreimbursed Medical participants of this change.

Administrative Issues for 2014 plans

If you wish to amend your 2014 plan, to allow the rollover option, and your plan has already enrolled, you will have to re-open your enrollment and allow all employees to make changes. Please notify us in writing as soon as possible, so we can amend your plan and prepare for new elections.

If you have already ready completed your enrollment and wish to amend your plan, we will provide a 2014 revision form. This can be sent to all your employees that wish to add Unreimbursed Medical or change the amount they elected.

Even though this announcement came at a most unfortunate time, it is great news and something we have requested for years. Please bear with us, as we update our systems to accommodate this new rollover feature, as well as the administrative changes that will have to occur.