Mercer Marketplace 365+℠

GRACE PERIOD VS CARRYOVER HANDOUT

Grace period and carryover options give participants even more flexibility with their FSA balances at the end of the year. Instead of immediately losing their remaining funds, the grace period or carryover allow participants to have an extended timeframe in which their funds can be spent or carry over some of their unused balances into the following plan year. This document outlines the difference between the two options.

Grace Period

Works as an extension of the plan year, which allows participants full access to their remaining funds to incur new claims/expenses for up to a maximum of 2.5 months after the plan year has ended.

Pros

- Allows full access to any remaining amounts after the plan has ended
- Debit cards are active as long as there are no denied claims
- Flexibility for larger unplanned expenses during the grace period

Cons

- Once the grace period has ended, participants lose access to remaining funds
- 2.5 months is the maximum to incur new expenses

Carryover

Allows participants in the previous plan year to move up to the IRS maximum carryover limit of their remaining balance to the current plan year.

Pros

- Less pressure to spend down remaining funds at the end of the plan year
- Nullifies IRS "Use or Lose" rule, since funds continue to carry over

Cons

- Any amounts greater than the IRS maximum carryover limit at the end of the plan year are forfeited
- Carryover funds are not available until after the run-out period has ended

Additional Notes

- The grace period or carryover does not impact the run-out period.
- The grace period or carryover does not impact the participants' election amount for the next plan year.
- The Medical FSA is allowed to have either the grace period or carryover, but cannot have both. Since the carryover does not apply to Dependent Care FSAs, a plan design may have a grace period for the Dependent Care FSA and a carryover for the Medical FSA.