

Remind employees now: Spend your health FSA money before year's end

Employees have only a handful more weeks to spend the money they salted away into their health flexible spending accounts (FSAs) this year. Unless your FSA plan gives employees a grace period or rollover option, anything left in their accounts on Dec. 31 will be forfeited to the plan.

FSA mechanics

Employees can contribute up to \$2,550 on a pretax basis into their health FSAs this year (the amount remains unchanged for 2016). Employees can use FSA money to pay for medical expenses that aren't covered by insurance—deductible and co-pays—for example. But there are two key limitations.

- Since employees must decide how much to defer on a pretax basis before the beginning of the year, many will have overestimated their needs; FSA rules generally require that unused amounts be forfeited to the plan at the end of the year.
- Employees can't use up their FSA money by buying nonprescription aspirin and cold medicine. FSA money can only be spent on prescription over-the-counter-items or on items that qualify as deductible medical expenses under tax code Section 213.

So, taking these limitations into consideration, it's not too late for employees (and their dependents) to go to the dentist, the optometrist for eyeglasses or an audiologist for hearing aids.

Exceptions to use-it-or-lose-it

Your FSA plan may allow employees to roll over up to \$500 in unused FSA money or it may have a grace period, but it can't have both. Either way, you'll have to amend your cafeteria plan. You should choose between these two options carefully, because grace periods and rollovers differ in significant ways.

Grace periods are limited to 2½ months after the end of the plan year and may be used to reimburse an unlimited amount of expenses. So employees who participate in calendar-year plans have until March 15, 2016 to incur 2015 expenses. But grace periods aren't a free pass. Anything left after the grace period lapses is forfeited to the plan.

Rollovers, on the other hand, can be used to pay or reimburse expenses employees incur during the entire plan year, but are limited to a maximum of \$500 or a lesser amount chosen by the plan. Nothing is forfeited to the plan, since employees can keep rolling over unused amounts into succeeding years. And employees who make rollovers can still defer the maximum amount into their FSAs every year.