



UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1000

OFFICE OF THE DIRECTOR

JUN 22 2005

MEMORANDUM FOR AGENCY CHIEF HUMAN CAPITAL OFFICERS

FROM: DAN G. BLAIR *Dan G. Blair*
ACTING DIRECTOR

SUBJECT: FSAFEDS Program

On May 18th the Treasury Department and the Internal Revenue Service (IRS) issued Notice 2005-42 which gave employers the flexibility to amend their plan documents to allow enrollees in their flexible spending account (FSA) programs up to 14-1/2 months to incur eligible expenses using their annual plan year election. This additional 2-1/2 month grace period is not an entitlement. Employers must decide whether to adopt it and amend their plan document. (The Treasury notice is at www.ustreas.gov/press/releases/js2456.htm).

With a longer time to incur eligible expenses, there is less chance that an enrollee will have a balance remaining at the end of the grace period and it is likely that plan forfeitures will be reduced. Our actuaries have looked at this and concluded that even so, plan forfeitures may continue to exceed plan overpayments and, in any case, forfeitures should not reach a level that could affect the \$3.50 risk reserve fee discussed in the CHCO memorandum of November 7, 2003. Overpayments occur when employees receive reimbursement for health care expenses that exceed the current amount of their health care FSA contributions at the point in time the employees separate from the Government.

Consistent with the Treasury/IRS Notice, we will allow the full 2-1/2 month grace period in the FSAFEDS program starting with the current 2005 plan year and each plan year thereafter. Enrollees will be able to incur eligible expenses through March 15, 2006, and have those expenses paid from their 2005 account balance. Note: if the 2005 account balance is not sufficient to reimburse in full an eligible expense incurred during the grace period, the unpaid balance will roll forward to any 2006 account the employee established. If the employee does not have a 2006 account, the expense will not be reimbursed in full.

Currently, FSAFEDS allows enrollees to file claims for eligible expenses incurred during the plan year as late as April 30 following the end of the plan year. We will require that claims be submitted by May 31 following the end of the plan year. This will provide participants an extra month to file their claims.

With a longer time to incur expenses, employees' eligible expenses may be higher. Therefore we will increase the maximum annual allotment for the health care FSA from its current \$4,000 limit to \$5,000, starting with plan year 2006.

We are pleased to make these improvements in the FSAFEDS program. If you have any questions or comments, please feel free to contact Laura Lawrence, FSAFEDS Contracting Officer, at laura.lawrence@opm.gov. We will also be available to discuss these changes at our next regularly scheduled CHCO Council meeting in July, 2005.

We appreciate your interest in the FSAFEDS program.