

# DID YOU KNOW

## OPM Improves the Federal Flexible Spending Account Program

*Federal employees given grace period to incur eligible expenses without suffering losses due to "use-it or lose-it" rule*

The U.S. Office of Personnel Management will give federal employees enrolled in the Federal Flexible Spending Account Program (FSAFEDS) an additional 2 ½ months in 2006 to incur claims for the 2005 plan year and use their 2005 account balances. OPM's announcement, which takes effect for the 2005 plan year, is expected to reduce the amount of monies employees forfeit through the Treasury's annual "use-it or lose-it" rule. This modification was made possible by a recent Treasury ruling.

OPM Acting Director Dan G. Blair recently issued a memo to the Chief Human Capital Officers (CHCO) announcing the enhancements to FSAFEDS. According to Blair, OPM is providing a much needed flexibility to federal employees by allowing the opportunity to incur eligible expenses with an expanded time constraint. OPM is also increasing the annual health care FSA contribution limit from \$4,000 to \$5,000 beginning in plan year 2006. Employees will also be given an extra month, until May 31, 2006 to file claims for reimbursement.

"These enhancements provide participants an extra month to file their claims plus an additional 2 ½ months to incur eligible medical expenses, therefore employees may take the opportunity to increase the funds in their FSA plans in 2006." Blair said. "Health care costs continue to top the list of increasing concerns to all Americans and federal employees. These enhancements encourage all employees to take full advantage of options available in the FSAFEDS program."

On May 18, 2005, the Department of the Treasury and the Internal Revenue Service (IRS) issued a notice giving employers the flexibility to amend their plan documents to allow enrollees in their flexible spending account (FSA) programs up to 14 ½ months to incur eligible expenses using their annual plan year election. Although the notice allows up to a 2 ½ month grace period, it is not an entitlement. Each employer offering an FSA program must make its own independent decision whether to take advantage of this flexibility.

The Department of the Treasury developed the new rule to give employees participating in FSA programs more time to incur and claim reimbursable medical and dependent care expenses and ease the year-end spending rush prompted by the prior rule. To incorporate this new grace period for the 2005 plan year in the FSAFEDS Program, OPM will modify the plan document for its cafeteria plan by December 31, 2005.

Currently, the FSAFEDS Program lets employees contribute pre-tax income up to \$4,000 each year to a health care FSA to pay for qualified medical expenses not covered by the Federal Employees Health Benefits Program, or any other insurance program, including dental care, eye-ware, prescription drugs, co-payments, and over-the-counter medicines. Employees also may fund a separate FSA account up to \$5,000 annually to cover the cost of child care or to pay for the care of qualifying parents or other eligible dependents.