



Grace Period -

The IRS permits (but does not require) an employer to amend the plan documents to provide for an extension of time required to incur expenses against a plan year's medical FSA contributions.

Typically a participant must have incurred the expense during the plan year (or period of coverage); otherwise, the participant was required to forfeit any remaining plan balance back to the employer. With the Grace Period, a participant has 2 ½ months after the close of the plan year during which in incur additional expenses against the prior plan year's medical FSA contributions.

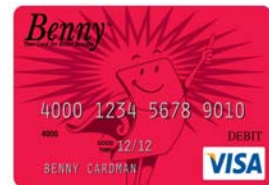
Employees who terminate their employment in the middle of a plan year are no longer participants in the plan (unless they are eligible to elect, and subsequently do elect COBRA) are not eligible for the grace period extension.

Run-out Period During the Grace Period -

Plan sponsors permit a specified period of time (the run-out period, which is typically 90 days) during which plan participants can submit expenses they incurred during the plan year (or period of coverage) against the medical or dependent FSA's. With the adoption of the Grace Period, plan sponsors extend the run-out period past the last day of the plan year to one hundred twenty (120) days for both the medical and dependent FSA. (example: in a calendar plan year the run-out would be January 1 to April 30)

Using your Debit Card During the Grace Period -

It appears that, by plan design, it may be better to apply swipes against only the current plan year, and permit participants to submit paper claims during the grace period.



First Received/First Paid Policy During the Grace Period –

If a participant has a remaining balance in the medical FSA prior plan year, all eligible receipts will be applied to that prior plan year, until that balance has been exhausted.

Administration of the Grace Period by Flex Corp –

1. The extension is 2 ½ months
2. The extension applies to the medical FSA only
3. The extension is not limited to a specific dollar amount
4. Run-out period is extended to 120 days and applies to both medical and dependent FSA's
5. First received/first paid policy
6. Debit card participants must submit paper claims during the grace period
7. One time only fee to the client of \$500 for document preparation
8. 5% increase to the per participant monthly reimbursement fee