

Benefits Buzz

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DID YOU KNOW

On Oct. 28, HHS released an FAQ about providing relief from individual mandate penalties for individuals who enroll in Exchange coverage at any time during the initial open enrollment period, which ends on March 31.

According to the FAQ, an individual who enrolls in an Exchange plan during the initial open enrollment period will not be subject to a penalty for the months before the coverage takes effect.

This exemption covers individuals who do not qualify for the short gap in coverage exemption based on their enrollment date. Additional detail will be provided in 2014 on how to claim this exemption.

IRS Clarifies Transition Relief for Cafeteria Plan Elections

A big change to the rules governing health flexible spending accounts (FSAs) was recently announced by the Internal Revenue Service (IRS).

On Oct. 31, the IRS released [Notice 2013-71](#), which relaxes the “use-or-lose” rule for health FSAs. Previously, any money put into a health FSA could not be carried over into the next year, although reimbursements were allowed to be paid for qualified expenses incurred in a “grace period” of up to two and a half months after the end of the plan year.

Under the relaxed rule, employers will now be able to allow participants to carry over up to \$500 in unused funds into the next year. Any unused FSA amount above \$500 will be forfeited. This modification applies only if the plan does not also incorporate the grace period rule.

This new carryover does not affect the

\$2,500 limit on salary reduction contributions. This means the plan may permit the individual to elect up to \$2,500 in salary reductions in addition to the \$500 that may be carried over.

For ease of administration, a cafeteria plan is permitted to treat reimbursements of all claims for expenses that are incurred in the current plan year as reimbursed first from unused amounts for the current plan year and, only after exhausting these current plan year amounts, as then reimbursed from unused carryover amounts from the preceding plan year.

To implement the new \$500 carryover option, a cafeteria plan offering a health FSA must be amended to include the carryover provision.

Please contact [B_Officalname] for more information on health FSAs.

In December 2012, the IRS issued [proposed regulations](#) that included a transition rule for elections made under a cafeteria plan with a non-calendar year plan year. Under this rule, an applicable large employer could amend its cafeteria plan to permit mid-year election changes corresponding with health care reform developments like the individual mandate and availability of the Exchanges.

On Oct. 31, the IRS released [Notice 2013-71](#), which clarified that the relief is available to any employer with a cafeteria plan that has a non-calendar plan year beginning in 2013, whether or not the employer is an applicable large employer or applicable large employer member. The clarifications apply beginning on or after Dec. 28, 2012 (the date on which the proposed regulations were issued).

The Notice also states that any cafeteria plan amendment adopted under this transition rule may be more restrictive than the amendments described in the rule, but may not be less restrictive.