



IRS Updates to FSA and Dependent Care Plans

May 2020



On May 12, 2020, the Internal Revenue Service (IRS) issued two notices that provides additional flexibility for employers with respect to **Flexible Spending Arrangements (Health FSA)** and **Dependent Care Flexible Spending Arrangements (Dependent Care FSA)**:

Notice 2020-29:

Allows for 2020 mid-year election changes for Health and Dependent Care FSAs

You may choose to amend your plan to allow employees on a prospective basis to (standard “qualifying event” not required)

- Revoke an FSA election
- Make a new FSA election
- Increase or decrease a current FSA election (allowed to limit decrease to amounts not already reimbursed)
- You can choose to allow changes for a limited time period or limit how changes can be made

Allows for an extended grace period

You may choose to amend your plan to allow for unused 2019 funds to be available for use through **December 31, 2020**:

- Eligible for plans with a grace period ending in 2020 or a plan year ending in 2020
- The extension is available for 2019 FSA plans which provided a grace period or carryover for 2019 funds
- The extension is also available for 2019 FSA plans (except calendar

- year plan years) that did not provide either a grace period or a carryover
- If adopted, the extension could cause compatibility issues for those who have switched to an HSA for 2020. The Grace periods cannot be extended for employees who are making HSA contributions now.

Notice 2020-33:

Increases the Health FSA maximum carryover limit

- For plan years beginning in 2020, the maximum carryover will equal **\$550.00**. (e.g. if your Plan Year starts 7/1/2020, the new carryover amount will rollover into the plan year that begins 7/1/2021)
- In future years, the \$550.00 will be indexed to inflation (Cost-of-Living Adjustment) to represent 20% of the current total FSA allowed maximum for the year (the \$550.00 is 20% of the 2020 FSA election max of \$2,750)

This change is not related to COVID-19.
****This new rule will be in place indefinitely****

Stanley Benefits can assist you with making any changes, please contact your **Dedicated Account Manager** for more information.
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