

EXPERT UPDATE



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The Impact of Health FSA Carryover Balances on HSA Eligibility

The IRS released a Chief Counsel Advice (CCA) memorandum that explains how the new health FSA carryover impacts Health Savings Account eligibility. When the IRS altered the “use-or-lose” rule, allowing certain participants in health FSAs to carryover unused balances of up to \$500 into the next plan year, questions arose about how this carryover would affect the ability for a participant to contribute to a Health Savings Account during the New Year. The purpose of the Advice memorandum is to clarify important issues surrounding the carryover so that employers can move forward and make informed decisions regarding their benefit plans.

The CCA addresses:

1. **Effect of General-Purpose Health FSA carryover on HSA eligibility-**
The memorandum indicates that HSA ineligibility lasts for the entire year in which unused FSA amounts are carried. It does not end when the FSA amounts are exhausted.
2. **Options available for preserving HSA eligibility –**
If the plan allows, an individual in a general-purpose health FSA can decline the carryover prior to the beginning of the next plan year in order to be able to contribute to a Health Savings Account when enrolled in qualified High Deductible Health plan for the next plan year.

If the plan allows, an individual with an unused balance in a general-purpose health FSA can elect to participate in an HSA-compatible FSA for the next plan year. The election can include a request to carryover the unused balance into the HSA-compatible FSA.

A Cafeteria plan that provides both a general-purpose health FSA and HSA-compatible FSA can allow individuals who have a carryover balance to be automatically enrolled in the HSA-compatible health FSA when they elect to participate in a qualified High Deductible Health Plan for the new plan year.



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