



FREQUENTLY ASKED QUESTIONS ABOUT THE GRACE PERIOD

What is the grace period?

In 2005 the U.S. Treasury Department issued Notice 2005-42. This notice allows employers and plan sponsors to design their Section 125 plan to allow for a grace period of two months and 15 days following the end of the plan year. Your employer has decided to implement this new rule.

What does this mean for me?

This ruling will help you to “spend” money that might previously have been lost under the “use-it-or-lose-it” rule imposed by the IRS. In other words, if you have a positive balance left in your flexible spending account at the end of the plan year, you will have an additional two months and 15 days to incur expenses in order to deplete that account. Any unused amounts after the end of the grace period are then forfeited under the “use-it or lose-it rule.”

Does this mean I have a new plan year?

Your plan year does not change. This rule simply allows you extra time to incur expenses you were unable to incur during the current plan year. You can incur old plan year expenses in the new plan year!

When is the last date I can incur an expense for the current plan year?

All expenses must be incurred on (or before) two months and 15 days after the end of your regular plan year. If you are not sure of your plan year, see your human resources or payroll department.

Do I need a special form for expenses I incur during the grace period?

No. The Request for Reimbursement form was changed to allow for this new ruling. Simply mark the appropriate box indicating whether the money is to be reimbursed from the “old” or “new” plan year.

Do I still have extra time to get all of my documentation turned in?

Yes. The 90-day “run-out” period will start after the end of the grace period. Remember, the run-out period is the extra 90 days allowed in order for you to get all of your reimbursement requests and substantiating documentation submitted for expenses incurred during the plan year and subsequent grace period.

When is that last date I can submit my reimbursement forms?

All reimbursement forms and substantiating documentation for the plan year must be postmarked or faxed to us no later than 90 days after the end of your grace period (five months and 15 days after the end of your plan year).

Is there anything else I need to know?

Yes. We will process claims from the first available dollars, unless you indicate otherwise on the request form. For example, an employee reaches December 31 with an unused balance of \$150. This employee has incurred that amount from lab work performed, but has not submitted

the claim because he is waiting for an explanation of benefits from the insurance carrier. On February 15, 2012 he buys a pair of eyeglasses for \$200. When submitting the claim, he does not indicate that the glasses should be reimbursed from the 2012 plan year. We will process the claim using the account balance from 2011, and pay the remaining \$50 from the 2012 plan year. If the employee later submits the \$150 charge for the lab work that was done in December, the claim would be denied because there would be no funds remaining from that year. As you can see, this does put responsibility on the employee to properly use their account.

Any advice?

Yes, again, please be sure to indicate on your Request for Reimbursement form which plan year you intend the claim to be processed from, **or** do not submit new plan year claims until all expenses that were incurred for the old plan year have been processed.

If you have any further questions, you are welcome to contact our Customer Service Department at (541) 485-7488 or (800) 422-7038, or via email at psacustomerservice@pacificsource.com.