



Grace Period Changes

In a time of emergency or impact, extending grace period can help, even if it is mid-year or after the end of a plan year. Unexpired grace periods can extend up to two (2) months and 15 days from plan year end date.

Why should you consider making a change?

The IRS released guidance to provide relief from certain rules under the Section 125 of the Internal Revenue Code due to the COVID-19 pandemic. The notice relaxes the use-it or lose-it rule and allows for extended time frames to submit claims for Healthcare and Dependent Care FSA plans.

Under this ruling, employers may amend Section 125 plans to allow reimbursements for claims incurred through December 31, 2020, at the end of grace period or plan year that ends in 2020. This change applies to all plans, even if a grace period was not initially in the Healthcare or Dependent Care FSA plan design.

Example: your plan has a grace period end date of August 31, 2020. A participant has a remaining balance of \$1,000 in their Healthcare FSA on that date. They would be able to incur expenses and submit reimbursement requests through December 31, 2020 against that balance.

Please note: these changes are *optional* for employers. If you desire to make a change, it will require Plan Amendments/Summary of Material Modification (SMM).

Things to Know:

- **Grace period cannot extend beyond runout period**

Runout period allows time for a participant to submit expenses that were incurred in plan year or in grace period. It is advisable to allow participants some runout period after the end of grace period.

- **Changes to grace period and runout can influence finalization**

When you change a plan's grace period and runout period, you will impact the finalization date. However, if you extend grace period without changing runout, there is no impact to finalization.

- **Grace period is not used on all accounts**

Grace period is not used on plans that have carryover/rollover. It is commonly used for Dependent Care FSA and Healthcare Premium Reimbursement accounts.

Want us to make changes to your TASC plan?

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