FSAs and the Use It or Lose It Rule

What does "Use It or Lose It" mean for an FSA?

FSAs are IRS governed accounts. The IRS requires that FSAs follow a Use-or-Lose rule which states that FSA funds must be spent by the participant within FSA's plan year. Unused funds are forfeited.

What happens to my funds when they are forfeited?

Forfeited funds return to the employer's cafeteria plan. There are strict guidelines for what forfeited plan funds can be spent on. CAS does not receive these funds, and they do not go directly back to the employer for general use. Instead they are maintained within the plan.

How does a grace period or rollover impact use it or lose it?

Employer must elect these provisions and cannot offer both a grace period and a rollover on the same plan year.

Grace Period:

A grace period allows participants to use their funds for 2 1/2 months after the regular plan year end date, extending the normal 12 month period to 14 1/2 months. For example, if the plan year runs from 1/1 to 12/31, participants would have until 3/15 to incur new expences on their account. Unused funds at the end of the grace period are forfeited.

Rollover (sometimes called "Carryover"):

A rollover allows participants to carry part of their funds from one plan year to the next. The IRS sets the maximum amount that can carryover each year ($570 for the 2022 plan year) and employers can allow any amount up to that maximum. Once funds rollover, they can be used for the new plan year's expenses along with any elected funds for that plan year. Funds over the carryover amount are forfeited.

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