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## Health FSA Carryovers – HSA Eligibility

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The IRS released guidance March 28, 2014, regarding the health flexible spending account (FSA) carryover (up to \$500) and health savings account (HSA) eligibility. The guidance clarifies methods under which an employer may implement the carryover provision, first introduced under guidance provided in 2013, while allowing individuals to maintain eligibility for HSA contributions.

### BACKGROUND

Recently released IRS rules allow an employer to implement an optional \$500 carryover provision of unused health FSA balances to the following plan year. However, including this provision can create a difficult situation for an employee wishing to move to an HDHP/HSA plan. Generally, an individual participating in an HDHP is eligible to contribute to an HSA so long as the individual does not have other disqualifying coverage. A general-purpose health FSA is considered disqualifying coverage for purposes of HSA contributions for the entire plan year, even if all funds from the health FSA are exhausted prior to the end of the plan year. Therefore, a carryover from the previous plan year into a general-purpose health FSA would disqualify an otherwise eligible individual from being able to contribute to an HSA for the year.

### NEW GUIDANCE

The IRS has provided options for employers who choose to implement the carryover provision for the health FSA and wish to maintain the employee's right to contribute to an HSA in a future plan year:

- Employers who offer only a general-purpose health FSA  
Employers may allow individuals enrolled in the general-purpose health FSA to decline/waive any carryover amount prior to the next plan year;
- Employers who offer both a general-purpose and

### a limited-purpose (HSA-compatible) health FSA

Guidance clarifies that carryover amounts from a general-purpose health FSA may be rolled over into a limited-purpose health FSA, so employers may offer both a general-purpose and a limited-purpose health FSA and either:

- Automatically carry over any unused amounts up to \$500 into a limited-purpose health FSA for the following plan year for individuals who elect to enroll in an HDHP; or
- Allow individuals participating in a general-purpose health FSA to elect to participate in and carry over any unused amounts up to \$500 to a limited-purpose health FSA for the following plan year.

For those employers opting to implement the carryover provision and also offer an HDHP/HSA plan option, this guidance assures that there are methods that can be adopted to prevent participating individuals who elect HDHP coverage from being ineligible for HSA contributions.

*As always, should you have any questions, please contact your  
Parker, Smith & Feek Benefits Team*

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