Internal Revenue Service Notice 2005-42 permits a plan to establish a grace period of two months and 15 days following the end of each plan year during which unused contributions in either your Health Care or Dependent Care Flexible Spending Account (FSA) may be reimbursed for qualifying expenses incurred during the grace period.

Therefore, since the State of Michigan’s FSA plan year ends on December 31st, you may incur qualified expenses through March 15th of the following year and use any remaining funds from your previous plan year account(s) as long as you are an active participant in the Health Care or Dependent Care FSA or have met your annual goal prior to your employment ending.

The grace period should not be confused with the run-out period. The run-out period allows you additional time to submit claims for reimbursement and needed substantiation for your prior plan year FSA. The State of Michigan’s run-out period ends on May 31st; meaning you will have until May 31st to submit claims for reimbursement for expenses for the prior plan year.

The following are some basic questions and answers to help you understand how Internal Revenue Notice 2005-42 may affect your Health Care and Dependent Care FSAs.

1. **What happens if I have money left in my 2014 FSA during the grace period?**

   If you have a 2014 FSA and have money left in your account after December 31, 2014, you may submit claims for expenses you incur from January 1, 2014 through March 15, 2015. Simply pay for the expense and submit a **Pay Me Back Claim Form** to WageWorks®, go to [www.wageworks.com](http://www.wageworks.com) to use the online claims reimbursement option, or download the WageWorks® **EZ Receipts** app (if you have a smartphone), to submit claims by May 31, 2015. Your eligible claim(s) will be paid up to the balance remaining in your 2014 account.

2. **Should I include the grace period when calculating my future annual goal for my FSAs?**

   No, you should continue to use only the calendar year (12 months) for calculating expenses for your FSAs. The Internal Revenue Service (IRS) grace period is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

3. **What happens if I do not seek reimbursement for the prior plan year by the run-out period?**

   If you do not substantiate your claim(s) with WageWorks® by the May 31st deadline for the prior plan year’s account, funds remaining in your account will be forfeited. Also, any claims that WageWorks requests substantiation for that are left unsubstantiated after May 31st, will be recouped by the State of Michigan on a post-tax basis as required by the IRS.

   Exception: Under the “Heroes Earnings Assistance and Relief Tax Act of 2008” (H.R. 6081), employees called to active military duty for a period of at least six months would be allowed to receive a taxable distribution of their Health Care FSA funds to avoid forfeiture.

   This law is considered an optional enhancement to the Health Care FSA plans. The State of Michigan has adopted this enhancement to the plan.