



IRS Increases Carryover Limit & Provides IHCRA Flexibility

In addition to IRS Notice 2020-29 affecting cafeteria plan elections, the IRS also released [Notice 2020-33](#) which allows for an increase to the health FSA carryover limit from \$500 to \$550. This notice also provided some relief for individual coverage health reimbursement arrangements (ICHRA).

HEALTH FSA CARRYOVER INCREASE

IRS Notice 2020-33 increases the health FSA carryover limit for unused health FSA amounts from \$500 to \$550. A plan may, but is not required to, adopt or change its carryover limit. The carryover of up to \$550 does not count against, or otherwise affect, the limit on salary reduction contributions applicable to each plan year. In addition:

1. A plan adopting a carryover provision is not permitted to also provide a grace period with respect to health FSAs. A grace period is a period of up to 2½ months after the end of the plan year during which expenses may be incurred and be reimbursed from funds remaining in the prior plan year. **Note:** per IRS Notice 2020-29 (see below) plans with a carryover may allow for an extended grace period through December 31, 2020 only.
2. Participants may not elect a salary reduction contribution for health FSA benefits of more than the annual limit (\$2,750 for 2020).
3. Plans may not reimburse claims that exceed the employee's annual salary reduction limit plus any nonelective employer contributions (often referred to as flex credits), plus the carryover amount.
4. Plans may not permit unused amounts relating to a health FSA to be cashed out or converted to any other taxable or nontaxable benefit.
5. The carryover provision does not apply to the dependent care FSA.

A plan may be amended to adopt the increased carryover amount for a plan year that begins in 2021,



SUMMARY

Health FSA Carryover

The \$500 carry over limit for health flexible spending arrangements (health FSA) is increased to \$550 for plan years beginning in 2020.

IHCRA

An individual health care reimbursement arrangement (IHCRA) is permitted to reimburse an individual for an individual health care premium expense incurred prior to the beginning of the plan year applicable to coverage in 2020.

for example, at any time on or before the last day of the plan year that begins in 2021. The maximum amount that can be carried over from a 2020 plan year will be \$550 for a plan year beginning in 2021.

[IRS Notice 2020-29](#) also provides relief regarding election changes in 2020 for plans adopting the increased carryover limit. Under existing § 125 cafeteria plan rules a participant could not change his or her election as a result of a change to the carryover for a 2020 plan year, however, this notice incorporates the modifications to health FSA election rules provided in IRS Notice 2020-29. Thus, a participant may be allowed to make a prospective change to his or her health FSA election pursuant to the employer adopting the carryover provision or adopting an increase to its existing carryover provision. This includes the ability to make an initial election to fund a health FSA, provided the changes are applied only prospectively.



INDIVIDUAL COVERAGE HEALTH CARE REIMBURSEMENT ARRANGEMENT (IH CRA)

Generally, health care reimbursement plans, including a health reimbursement arrangement, may not reimburse medical expenses incurred before the beginning of the plan year. Notice 2020-33 provides limited relief that will allow a plan to treat an expense for a premium for health insurance coverage as incurred on:

1. the first day of each month of coverage on a pro rata basis,
2. the first day of the period of coverage, or
3. the date the premium is paid.

For example, an individual coverage HRA with a calendar year plan year may immediately reimburse a substantiated premium for health insurance coverage that begins on January 1 of that plan year, even if the covered individual paid the premium for the coverage prior to the first day of the plan year.

Note that a health FSA offered through a cafeteria plan may not reimburse for individual insurance premiums.

Research and Compliance will continue to monitor these changes and provide updated information.



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