

Benefits Alert 2005-3

To	All Clients & Friends of FBMC	Date	5/19/2005
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Re	Revenue Notice 2005-42		

It's not a Roll-over, but . . .

For some participants of flexible spending arrangements, this Revenue Notice will be welcome news. Effective 2005, Employers have the option of adopting a "grace period" following the end of each plan year to permit additional expenses to be incurred. Here's how it works:

- The notice modifies the application of the rule that prohibits deferred compensation under a cafeteria plan.
- The notice permits a 2½ month grace period immediately following the end of a plan year during which additional services may be incurred to spend down any remaining contributions.
- Any contribution remaining at the end of the new "grace period" would be forfeited.
- The plan becomes a 12 + 2.5 month plan year for purposes of MFSA reimbursement. (The applicability to DCAP is not known at this time.)
- An employer **may** adopt this "grace period" for the current cafeteria plan year or subsequent plan years by amending the plan document before the end of the plan year.

Without a doubt this will remove a huge obstacle to participation in the program and we are encouraged by the attention that the current Administration and Treasury is paying to the rising cost of healthcare and the relief that is forthcoming.

I am attaching the Notice for your information. I am also attaching the recent Quarterly Review which contained an article about the impact of roll-over on client risk. The new "grace period" may be expected to have a similar impact.



notice2005-42.pdf



Q-Review1.pdf
(236 KB)

Certainly we have some challenges ahead in preparing systems and materials for a 2005-plan year implementation. We will be providing additional information as we start to uncover and address the nuances of expanding the coverage period. Once the dust settles and we have had an opportunity to pose some follow-up questions to Harry Beker and/or Liz Purcell, we will be preparing the appropriate amendments for your signature or for your use in preparing your own documents.

In the interim, please feel free to call or email me or your Account Manager.