**Grace Period**

The grace period provision provides for a delay to the “use it or lose it rule” under traditional FSA plans. The grace period allows for money remaining in a Health FSA at the end of a plan year to carry over to cover eligible expenses incurred through the 15th day of the third month after the plan year ends. Keep in mind, this does not eliminate the “use it or lose it rule” completely. Any unused amounts from the prior plan year that are not used to reimburse expenses by the end of the grace period remain subject to the “use it or lose it rule” and must be forfeited.

**So, how does this affect my Health FSA?**

Let’s say for example, your plan year runs from January 1 through December 31. Under a traditional FSA plan without the grace period provision, any money remaining in your Health FSA at the end of your plan year on December 31 would be lost. Under the grace period provision, you have a grace period from January 1 until March 15 of the new plan year to incur eligible expenses.

You will be reimbursed for these expenses from money remaining in your Health FSA from the immediately preceding plan year ending on December 31. All Health FSA reimbursements issued during the grace period will be processed as “first dollar in, first dollar out.”

**What is meant by “first dollar in, first dollar out”?**

In an effort to help you prevent the potential loss of any remaining prior year funds, requests for reimbursement received during the grace period are processed against your Health FSA in the order that they are received, regardless of the plan year. The first expense received will go against any prior year balance remaining.

For example, if after the 2015 plan year you have $200 remaining in your Health FSA, the first request for funds during the grace period in 2016 will be processed against the $200 funds from the 2015 plan year. This is regardless of the method the request is submitted or received (i.e. submitted request, Preferred Blue Accounts flex debit card transaction, or automatically applied medical claim).

Expenses could either be those incurred in the previous plan year or from the current plan year. For example, you have an eligible expense on January 7, 2016 and your out of pocket cost is a deductible of $500. The Health FSA receives this transaction and will process the claim against your remaining 2015 plan year Health FSA balance ($200). The remaining $300 will then process against your current plan year balance. Your 2015 account balance is now reduced to zero. Your 2016 account balance is reduced by the $300 payment. You are reimbursed the full $500 from your Health FSA.

If in February 2016, Blue Cross receives a request for funds to be reimbursed for an eligible service that was incurred in December 2015 in the amount of $100, your request will be denied because your Health FSA balance for the 2015 plan year has been exhausted.

If you have a prior year expense (such as the $100 request mentioned above) and you want the funds to be reimbursed from your prior year (2015) Health FSA you should submit all eligible expenses to Blue Cross as quickly as possible and receive payment before any 2016 incurred expense transactions are received and processed. If at that time, all funds are exhausted from your 2015 account, all current year (2016) expenses will process from your 2016 Health FSA.

If you need additional information, please contact Preferred Blue Accounts Customer Service at 1-800-213-7930 and they can explain your options and any actions required on your part.

**Remember, you have until the end of the timely filing period to submit a Request for Reimbursement against your account.** The timely filing period ends 105 days after the close of the plan year. At the end of the timely filing period, any unused funds will be forfeited.