



Federal Health Care Reform Update

Flexible Spending Accounts



The federal health care reform law will require health plans to provide coverage to children up to the age of 26. This provision is effective on the first day of the plan year beginning on and after September 23, 2010 for children who are not eligible for other employer coverage.

In order to provide these benefits on a tax free basis, there has been a corresponding change to the Internal Revenue Code. The cost of employer provided coverage and any benefits received for children who have not attained age 27 as of the end of a tax year will be excludable from the employee's gross income. In addition, any other medical expenses of children who have not attained age 27 by the end of the tax year will qualify as medical expenses that can be reimbursed from an employee's Flexible Spending Account (FSA). The effective date of the tax changes is March 30, 2010.

These tax changes impact FSA participants in three important ways.

- First, participants with FSA balances can use these balances for the medical expenses of children who will not attain the age of 27 by the end of this year. The child need not qualify as a "dependent" under federal law and the child need not be covered under the parent's medical plan.
- Second, when a child who was not previously eligible to benefit from his or her parent's FSA now becomes eligible for benefits, the parent experiences a "change in status" and the parent is able to change his or her FSA election during the plan year. Since any adjustment to an FSA election must be "consistent with the change in status", participants who have newly eligible children can increase their FSA contribution (but not decrease it).
- Third, an employee who did not elect to participate in an FSA for the current plan year and who now has a newly eligible child can change his or her election and participate in the FSA plan this year.

Any changes to an FSA election must be made in a timely manner. Since the Notice of the tax changes was issued by the Internal Revenue Service on April 27, 2010, we recommend that employers require that changes be submitted within 30 days of their notice to their employees, but not later than June 15, 2010.

Should you have any questions regarding this Update or any other compliance matters, please contact Benemax Compliance Officer Walter Hiltz at 800-528-1530 ext. 120 or walter@benemax.com

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