

Temporary COVID-19 Relief for the Flexible Spending Account (FSA) Benefit - Continued in 2021

In December, the Consolidated Appropriations Act, 2021 (CAA) COVID-relief bill was signed into law. This legislation includes several temporary special rules for Health and Dependent Care Flexible Spending Accounts (FSAs) to allow for flexibility with mid-year elections and alleviate the impact of the use-it-or-lose-it provisions. Under this guidance, the City of Tacoma may adopt some, all, or none of these special provisions. After careful consideration, the City is pleased to extend the following temporary plan changes:

1. Allow employees to make prospective mid-year elections and election changes related to Health Care FSAs during calendar year 2021, without a qualifying life event; and
2. Allow employees to make prospective mid-year elections and election changes related to Dependent care FSAs during calendar year 2021, without a qualifying life event; and
3. Extend Health Care FSA Grace Period to 12/31/2021 (previously, 2020 Health FSA elections could be spent through 03/15/2021 with claims incurred in 2021); and
4. Add Dependent Care FSA Grace Period to 12/31/2021 (previously, 2020 Dependent Care FSA did not have a Grace Period and elections had to be spent by 12/31/2020).

Note: Items #3 and #4 will be automatically implemented for the City of Tacoma Flexible Spending Plan. If an employee had funds left over from their Health or Dependent Care FSA for 2020, any claims submitted in 2021, will be applied to those 2020 funds first to avoid forfeiture. Claims for reimbursement would need to be submitted by April 30, 2022.

Please visit the Benefits website at cityoftacoma.org/benefits to obtain an "FSA Change in Election" form to initiate a Mid-Year Health Care FSA or Dependent Care FSA Election Change(s). Completed forms should be submitted to the Benefits Office at benefits@cityoftacoma.org.

Employees may make the following Health Care FSA & Dependent Care FSA election changes in 2021:

- Stop (revoke) the election(s) so that no further salary contributions will be required for the remainder of the year;
- Make a new FSA election if none was made during the open enrollment period or without a qualifying life event;
- Increase the FSA election amount;
- Reduce the FSA election amount.

Note: Annual Election changes will be effective the next payroll cycle following the election approval and remain in effect through December 31, 2021. The revised Annual Election amount is available for reimbursement during the entire 2021 Plan Year, **but the change in election for payroll deduction purposes is prospective**. Current HSA participants are not eligible to participate in the Health Care FSA (but may participate in the Dependent Care FSA).

The legislation does not include FSA account balance refunds. Employers are permitted to limit mid-year changes to amounts no less than amounts already reimbursed. However, FSA elections may be stopped so that no additional salary contributions are required to maintain the FSA account.

Employees should be aware of Dependent Care FSA Grace Period impact:

Dependent Care FSA Grace Period: The addition of a Grace Period to the Dependent Care FSA allows any 2020 funds remaining on 12/31/2020 to be available to incur expenses during the period Jan 1, 2021 – Dec 31, 2021.

IMPORTANT: Dependent Care FSA Grace Period Amounts Count Toward the \$5,000 Annual Contribution Maximum. Dependent Care FSA Grace Period amounts carried forward from 2020 to 2021 count toward the employee's maximum dependent care exclusion for the tax year that the amount is carried into.

Example: *Employee is single with a maximum IRS dependent care exclusion of \$5,000. At the end of 2020, the employee had \$200 of unused dependent care expenses that carried over into 2021. In 2021 the employee contributed, and incurred, an additional \$5,000 of dependent care expenses. Of the total \$5,200 of dependent care reimbursements during 2021, \$200 is taxable. If you had dependent care expenses unused from 2020 and elected the maximum annual contribution for 2021, you may want to consider revising your 2021 election to avoid a tax implication.*

Questions about this message can be sent via email to benefits@cityoftacoma.org or via phone at 253-573-2345, or to TPSC Benefits Member Services via phone at (800) 426-9786 x210 or via email at BenefitSupport@tpscbenefits.com.