

# KNOW YOUR BENEFITS



## FSA Carryover Rules Overview



If you contribute to a health flexible spending account (FSA), you already know the value of setting aside pre-tax dollars for medical expenses. But there's one rule that catches many employees off guard: the use-it-or-lose-it rule. Fortunately, your employer may offer a carryover to keep some of that money working for you.

Unlike a health savings account (HSA), which allows you to grow a balance, an FSA has unique rules. This article explains how FSA carryovers work, how much you can roll over and the steps to take before the plan year ends to maximize the benefit.

### What Is the Use-It-or-Lose-It Rule?

A health FSA lets you contribute pre-tax dollars to cover eligible out-of-pocket medical expenses, such as copays, prescriptions, dental care and vision expenses. The trade-off for this benefit is the use-it-or-lose-it rule. Any funds left in your account at the end of the plan year are generally forfeited. However, employers have the option to soften this rule through a carryover.

### What Is a Carryover?

A carryover allows you to roll a portion of your unused FSA balance into the following plan year. Instead of losing leftover funds entirely, that money stays in your account and can be used for eligible expenses throughout the new year.

However, FSAs don't automatically include carryovers. Your employer has to choose to offer a carryover, and the amount you can roll over is subject to an IRS limit. To find out whether your plan includes a carryover, check your benefits portal or open enrollment materials. You could also ask your HR or benefit team directly.

### How Much Can You Carry Over?

The IRS sets a maximum carryover amount each year, which is adjusted for inflation. **For plan years beginning in 2026, the maximum carryover is \$680.** Your employer may set a lower limit, so check your plan documents to confirm the amount.

It's also important to understand that rolled-over funds do not count against your contribution limit for the new year. That means you could contribute up to \$3,400 in the new plan year and carry over up to \$680 from the previous year.

### What's the Difference Between a Carryover and a Grace Period?

If your employer doesn't offer a carryover, they may instead offer a grace period. These are two separate concepts, and a plan can only include one of them.

- **Carryover** moves unused funds (up to the limit) into your new plan year's balance, where they're available for the full year.
- **Grace period** gives you up to 2 ½ extra months after the plan year ends to spend remaining FSA funds. The money doesn't roll over, but you have more time to use it.

To plan accordingly, check your benefits materials to find out what your plan offers before year-end.

## Making the Most of Your FSA

As your plan year winds down, a few steps can help you make the most of your FSA and available funds:

- Check your FSA balance and estimate upcoming eligible expenses.
- Spend funds above the carryover limit before year-end so you don't forfeit more than necessary.
- Confirm whether your plan requires you to re-enroll in the FSA to receive the carryover. If you opt out of the FSA next year, you may forfeit your remaining balance.

In addition, if you're switching to a high deductible health plan (or HDHP) and planning to open an HSA, talk to HR before open enrollment. Carrying over a balance from an FSA into the new year can affect your eligibility to contribute to an HSA. If this applies to you, ask HR about your options, which may include waiving the carryover or rolling your funds into a limited-purpose FSA (which covers dental and vision expenses only) to preserve your HSA eligibility.

## Summary

FSA carryovers can meaningfully reduce the impact of the use-it-or-lose-it rule, but only if you know what your plan offers and take action before year-end. A little planning now can preserve more of your money for the year ahead.

Reach out to your HR representative if you have questions about your FSA and carryover rules.