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Examples of Mid-Year Election Changes Based on Status or Cost Changes

Example 1:

In April 2020, Mary's employer adopted the COVID-19 flexibility rules regarding mid-year FSA/DCAP elections and allowed employees a two-week window for a one-time change under the temporary flexibility rules.* During the window, Mary significantly decreased her DCAP election because she was not using daycare at the time and would not be for the foreseeable future. In September 2020, Mary decided she wanted to place her child in daycare while she worked and requested to increase her DCAP election. Is her request consistent with the rules?

Answer:

Mary's first request would not normally be allowed under the rules, as she did not experience one of the status- or cost-based events required for mid-year election changes. However, it was allowable here because of the COVID-19 flexibility rules that her employer adopted. Mary's second request would be allowed under the rules. Mary experienced a change in the cost of coverage for her child – going from a no cost situation to one with a cost for providing DCAP eligible daycare coverage for her child. As she is requesting to increase her DCAP election based on a corresponding change in cost, [the change is allowed under the mid-year election change rules](#), even though she previously made a mid-year election under the new COVID-19 flexibility rules.

** Note: employers had flexibility to limit the availability of election changes under the COVID-19 flexibility rules regarding mid-year FSA/DCAP elections. For example, employers could limit the time during such election changes could be requested to a specific period or they could limit the number of times an employee could request such a change.*

Example 2:

In May 2020, Sally's employer adopted the IRS' policy of increased flexibility for health FSA and DCAP mid-year election changes. Sally decided to reduce her health FSA election to save money in an uncertain time. In October 2020, Sally got married to Bob and decided she wanted to increase her health FSA election. Is Sally able to increase her health FSA election in this case?

Answer:

Yes. This election change is allowed under the rules. Her first mid-year election change was allowed under the COVID-19 flexibility rules (but would not have normally been allowed otherwise). For her second request, Sally experienced one of the enumerated status change events, and the election change she is requesting is consistent with the event (increasing it due to gaining a new dependent).*

** Note: given the fact the employer adopted the special COVID rule, Sally does not need a change in status to make a second change in October unless the employer's COVID amendment restricts employees to one election change under the special flexible rules.*

Example 3:

Reni's employer did not adopt the COVID-19 flexibility rules regarding mid-year election changes. In February 2020, he decided to increase his DCAP election because he started working full-time hours and needed to have his child in childcare for more hours per week. In June, his work hours were reduced from 40 hours to five hours per week, and he requested to have his DCAP election reduced. Is this permissible?

Answer:

Yes, both requests are allowable under the rules. In both instances he experienced a change in employment status by the hour increase/reduction, and his DCAP election requests were consistent with the change in status events.

Example 4:

Debbie's employer did not adopt the COVID-19 flexibility rules regarding mid-year election changes. Her husband was terminated from his job in May 2020. Debbie requested to decrease her DCAP election as her husband could now watch the children during the time they would normally both be working. In August 2020, her husband died, and she requested to increase her DCAP election so that her children could be placed in childcare while she worked and requested to increase her health FSA election to help pay for her children's future medical expenses. Are her requested changes permissible?

Answer:

Debbie is able to make both requested changes to her DCAP. Both were based on allowable status-change events and the requested changes were consistent with the events. Debbie's request to **increase her health FSA election is not allowable** under the rules, as even though a status change event occurred, the requested change is not consistent with the event. The health FSA election change would have been allowable if her employer had adopted the COVID-19 flexibility rules regarding mid-year election changes but it did not.

Example 5:

Tom's employer did not adopt the COVID-19 flexibility rules regarding mid-year election changes. At the beginning of 2020, Tom was a full-time employee working 40 hours per week. In May 2020, due to the COVID emergency, Tom's employer reduced his hours to 30 hours per week. Despite the reduction in hours, Tom remained eligible for his employer's health FSA. Due to the reduced hours and corresponding reduction in income, Tom requests to reduce this health FSA election. Is this allowed under the rules?

Answer:

Although an election change would have been allowed had the employer adopted the COVID-19 flexibility rules regarding mid-year election changes, [it is not allowed in this situation](#). Although Tom has experienced a change in employment status, the change in status has not affected Tom's eligibility.