<u>Medical Reimbursement Account (MRA) Grace Period Frequently Asked Questions</u>

Q: What is a Grace Period?

A: Immediately following the end of a program year, the administrator of a plan that includes a medical reimbursement account (MRA) may establish a Grace Period of up to two and one-half months following the end of the program year. Eligible expenses incurred during the Grace Period may be reimbursed from the previous program year's MRA balance, in effect creating a fourteen and one-half month period of coverage.

For the 2008 program year, eligible expenses incurred during the Grace Period, which runs from January 1, 2009 to March 15, 2009, may be considered for reimbursement from the 2008 MRA account balance, if any.

Q: What is a Run-out Period?

A: According to the Treasury Regulations, the administrator of a Medical Reimbursement Account (MRA) must establish a run-out period that immediately follows the end of a program year during which participants may submit eligible expenses incurred during the program year that has just ended. Eligible expenses incurred during the program year that has just ended plus the Grace Period must be submitted no later than April 30 following the end of the program year. For the 2008 program year, eligible expenses incurred during the 2008 program year plus the Grace Period (January 1, 2009 to March 15, 2009) must be submitted by April 30, 2009 in order to be considered for reimbursement from any available 2008 funds.

Q: How do the Grace Period and Run-out Period work together?

A: HealthFlex's Grace Period and Run-out Period run concurrently. The Grace Period and the Run-out Period begin at the same time (January 1 of the year that immediately follows the end of a program year).

Q: What does "one-time reallocation" mean?

A: The "one-time reallocation" starts after the Run-out Period has ended (April 30, 2009 for the 2008 program year) and all pending claims have been paid. Only participants with a 2008 MRA balance <u>and</u> expenses incurred during the Grace Period (January 1, 2009 to March 15, 2009) are affected. Ceridian will apply eligible expenses incurred during the Grace Period against the remaining balance of the program year that has just ended by making a one-time adjustment to the MRA account. For more information about the one-time reallocation, please consult the Ceridian website.

Q: Why doesn't HealthFlex offer these services for Dependent Care?

A: There are concerns that implementing a Grace Period for a Dependent Care Account (DCA) may result in some participants' reportable DCA exceeding the maximum amount allowed by the Internal Revenue Service (IRS), and such participants may lose the tax benefit on the excess amount. The IRS has issued guidance in IRS Notice 2005-61 that may have resolved this concern. HealthFlex has reviewed the guidance with Ceridian, but has decided not to implement a Grace Period at this time. Additionally, very few DCA participants forfeit funds since expenses are more easily predicted.

Q: Who is eligible to take advantage of the Grace Period?

A: Typically, active participants with non-zero MRA balances on the last day of the program year are eligible to take advantage of the Grace Period.

Q: Can participants who join the plan and elect to defer compensation to a Medical Reimbursement Account (MRA) mid-year participate in the Grace Period?

A: Yes. According to the IRS, participants who are active as of the last day of the program year are eligible to participate.

Q: Can participants who terminated employment during a program year participate in the Grace Period?

A: No. The IRS states that a participant must be considered active on the last day of a program year to be eligible to utilize the Grace Period.

Q: If a participant terminates during the Grace Period, are they eligible for the one-time reallocation?

A: Yes. According to the IRS, participants who are active as of the last day of the program year are eligible to participate.

Q: How soon after the end of the Run-out Period will the remaining balance from the program year that has just ended undergo the one-time reallocation?

A: Within 45 days following the end of the Run-out Period. For the 2008 program year, the one-time reallocation will occur on or before June 15, 2009.