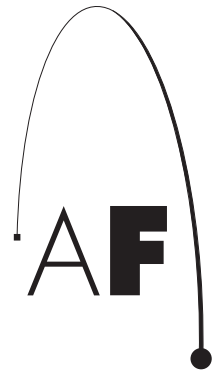


AMERIFLEX



IRS Extends “Grace Period” for FSA Claims

Mount Laurel, N.J.—May 20, 2005

On Wednesday, May 18, 2005, the Treasury Department released Notice 2005–42, announcing that employers are permitted to design cafeteria plans that enable participants to be reimbursed for claims incurred up to 2½ months after the close of a plan year. Under current rules, reimbursements are permitted only for claims incurred during the plan year. Under the new ruling, an employee who participates in an FSA plan ending December 31 can still incur claims through March 15th if the extended grace period is adopted by the employer.

Plans that adopt the optional 2½ month grace period allow participants extra time to use their remaining balances, resulting in a decrease in participant forfeitures and, perhaps, an increase in health and dependent care FSA participation. The expanded grace period should eliminate the year-end rush of employees trying to use up the balance in their accounts. Now, leftover money can be targeted for purchases that the employee actually needs. Since the “use it or lose it” risk has been mitigated by the expanded claims reimbursement cycle, both the percentage of employees opting to participate in a Flex plan as well as the level of annual elections should increase, enhancing FICA savings for employees and employers alike.

The plan does not allow money left over at the end of the plan year to be cashed out or rolled over to the following plan year. Reimbursements can be made only for expenses eligible under the plan that are incurred within the plan year, which will now include the extended grace period if it is adopted within the plan document.

Existing health and dependent care FSA plans are eligible to adopt this new ruling, and we are supporting related amendments on a fully automated basis for debit card clients beginning with plan years ending December 31, 2005. Requests for earlier 2005 renewals may be supported as early as July 31, but would require manual claims submission during the extended grace period until such time that our debit card vendor, MBI, is able to automate their system to accept debit card claims through that same grace period.

CONTACT:

KEVIN J. BOYLE, Chief Compliance Officer
303 Fellowship Road, Suite 201, Mount Laurel, NJ 08054
Toll Free: 888-868-FLEX (3539), ext. 107
Direct Fax: 559-328-1439
E-mail: kboyle@flex125.com
Web: www.flex125.com