

MCAP/DCAP Changes

IRS Flexibility due to COVID-19

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 was signed into law on December 27, 2020 as part of the Consolidated Appropriations Act, 2021. This Act provides employers the ability to add several special rules for health flexible spending arrangements (MCAP) and dependent care assistance programs (DCAP) under § 125 cafeteria plans but does not make these changes mandatory.

The State of Illinois Bureau of Benefits has decided to implement four of the allowed changes to its § 125 cafeteria plan. The changes being adopted are described below.

- Unlimited carryover of unused funds for both MCAP and DCAP from fiscal year 2020 (FY20) to fiscal year 2021 (FY21) and from fiscal year 2021 (FY21) to fiscal year 2022 (FY22).
 - a. Rollover funds can be used to pay claims incurred during the following plan year. For example, funds rolled over from FY20 can be used for claims with a date of service during FY21.
 - b. Per IRS regulations, a member will not be permitted to take advantage of this rollover provision while also contributing to a Health Savings Account (HSA).
 - c. For fiscal year 2023 the allowed rollover amount will return to the IRS approved amount, currently \$550.00.
- Special age limit relief provided for DCAP dependents for FY20 and FY21.
 - a. Generally, the requirements allow for reimbursement of expenses incurred for the care of a dependent child who is under age 13.
 - b. This change allows the plan to extend the maximum age of eligible dependents from 12 to 13 for the FY20 DCAP plan year and unused amounts from the 2020 plan year that are carried over into the 2021 plan year.
- Prospective Mid-year election changes for MCAP
 - a. MCAP elections may be changed without a qualifying event.
 - b. Election can be changed in the following ways:
 - i. Increase amount of election
 - ii. Start new election
- Prospective Mid-year election changes for DCAP
 - a. DCAP elections may be changed without a qualifying event.
 - b. Election can be changed in the following ways:
 - i. Increase amount of election
 - ii. Decrease amount of election
 - iii. Start new election
 - iv. Cancel current election

• FAQ's

- The Notice said that members could re-enroll in the middle of FY21 and have the unused FY20 funds rolled over to their account; will it be the same case for FY22?
 - IRS Notice 2021-15 allows the rollover of unused MCAP/DCAP funds from FY20 to FY21 even if the election is made after 01/01/2021. It allows a rollover of unused FY21 funds to FY22 only if the election is made before 12/31/2021.
- What are the dates for claim submission going to be in FY21 and FY22?
 - FY20 funds can be used to reimburse claims with a date of service from 07/01/2019 to 12/31/2020. This includes the extended claim period provided in IRS Notice 2020-29.
 - FY21 funds (whether salary deferred or rolled over from FY20) can be used to reimburse claims with a date of service from 07/01/2020 to 06/30/2021.
 - FY22 funds will be used to reimburse claims with a date of service from 07/01/2021 to 06/30/2022.
- What will the run-out periods be for FY21 and FY22?
 - The run-out periods will remain unchanged for the MCAP/DCAP plans.
 - The Sol plan allows a three-month period to submit claims after the end of the plan year.
 - FY21 plan year ends on 06/30/2021, the deadline for claim submissions will be 09/30/2021.
 - FY22 plan year ends on 06/30/2022, the deadline for claim submissions will be 09/30/2022.
- When will rollover funds be applied?
 - The Sol plan states that rollovers will be applied thirty days after the claim submission deadline.
 - The deadline is September 30th, so rollover funds should be applied by October 30th.
 - In cases where there is a late enrollment, a thirty-day processing period is normal.
- For dependents who are aging up, is there a birthday/month we are to go by for the special age limit relief to be effective? I.E. The dependent must be 13 as of ----- date?
 - For a member to be reimbursed for dependent care expenses from their DCAP account, the dependent must be under the age of thirteen (13) when the expenses are incurred. This is the IRS guideline for dependent care programs.
 - The COVID-19 flexibility allows “under the age of 13” to be replaced by “under the age of 14” for the purpose of using DCAP funds that were rolled over from FY20 to FY21.
 - For example: A member’s dependent turned 13 years of age on 05/01/2020. DCAP funds for FY20 could be used to reimburse day care expenses incurred from 07/01/2019 up to 05/01/2020, when the dependent aged out of the program. Due to COVID-19 the day care provider was closed in February 2020. Since the provider was closed the member had less eligible expenses than planned and had unused funds at the end of the plan year. The IRS flexibility will allow the unused funds to be rolled over to FY21 and allow the funds to be used up to the dependent turning 14 years of age on 05/01/2021.