FSA Hot News Flash

2 ½ Month Extended Grace Period Allowed

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May 18, 2005, the U.S. Treasury Department issued Notice 2005-42, which modified prior Section 125 Cafeteria Plan regulations regarding deferred-compensation. This modification allows FSA participants who have a remaining balance in their health or dependent care FSA account as of the end of a plan year, an additional 2 months and 15 days to incur expenses to spend those dollars. The effect of the grace period is that the participant may have as long as 14 months and 15 days (the 12 months in the current cafeteria plan year plus the grace period) to use benefits or contributions for a plan year before those amounts are "forfeited" under the use it or lose it rule. This does not affect your plan's run out period following the end of a plan year. The standard run out period offered under the cafeteria plan services provided by Principal Life Insurance Company is 90 days. Your plan may have a different run out period. Please refer to your cafeteria plan document for confirmation. If your current plan's run out period is less than 90 days, you may need to consider amending your plan to extend your run out period to take advantage of this new grace period.

Adoption of this new rule is not mandatory. However, IRS rules require that employers who wish to amend their plan to include this new provision, do so prior to the end of their current plan year. The earliest Principal Life can accommodate adding this amendment is for plans renewing on July 1, 2005 or after.

If Principal Life provided you with a cafeteria plan document, and you wish to add this provision to your existing FSA plan, please complete the information below and fax a copy of this notice to: 1-515-235-9280 attention FSA department. Plan holders who fail to return this completed form, will not have this amendment made to their plan.

Important note: If Principal Life is providing FSA services for your cafeteria plan, using a plan document that you provided to us, it will be your responsibility to contact your legal or tax advisor about amending your current plan document to add this provision. Once your plan has been amended, you will need to provide Principal Life with a copy of the amended cafeteria plan document, and summary plan description booklet. The new rule will not be applied to FSA claims processed under your plan following the end of the plan year, unless the amended document and summary plan description booklet is received by your FSA plan administrator.

Company name	FSA account number	Date

Signature	Title

List the date you want this amendment to be effective

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