FSA Q&A

Flexible Spending Accounts are a smart, simple way to save money while keeping you and your family healthy and protected. Read on to see if one of these tax-advantaged accounts is a good fit for you and your family's needs.

What is it?

A Flexible Spending Account (FSA) is a tax-free account you put money into to pay for certain out-of-pocket healthcare and/or child care expenses. If your employer offers an FSA, you can elect to participate in an FSA even if you waive other coverage. There are three types of FSAs: Healthcare, Limited Use, and Dependent Care. Your health plan choice and IRS rules determine which FSA you can enroll in.

BENEFITS OF AN FSA

TAX SAVINGS

You contribute to your FSA through payroll contributions, which are taken out pre-tax – lowering your taxable income and increasing your take-home pay!

MEDICAL SAVINGS

You can use your FSA dollars for doctors' appointments, over-the-counter medications, dental expenses, glasses and contacts, menstrual products and more.

DEBIT CARD

Many FSAs offer a debit card, making paying for care easy.

What are the different types?

Healthcare FSA

You can contribute up to $2,850 annually for qualified medical expenses. This amount is usually changed each year by the IRS. You can pay for eligible expenses with an FSA debit card at the same time you receive them without waiting for reimbursement. Your full annual election amount is made available to you at the start of every plan year.

What's covered? FSA funds can be used for deductibles, copays, prescription medications, and over-the-counter medications with a prescription. They can also cover medical equipment, supplies and diagnostic devices. Click HERE for a list from the IRS of medical, dental and vision expenses that are generally covered.

What's not covered? You can't use FSA funds to pay insurance premiums. Certain controlled substances, medically unnecessary cosmetic surgery, and non-prescription medications are also not covered.

Limited Use FSA

A Limited Use Flexible Spending Account (LUFSA) works alongside a Health Savings Account (HSA) and allows for reimbursement of eligible dental and vision expenses. You decide how much to set aside for this account. The annual limit for 2022 is $2,850.

Dependent Care FSA

The Dependent Care FSA allows you to set aside pre-tax funds for expenses associated with caring for elderly or child dependents. **Unlike the Healthcare or Limited Use FSA, reimbursement from your Dependent Care FSA is limited to the total amount that is deposited in your account at that time.**

- With the Dependent Care FSA, you can set aside up to $5,000 to pay for child or elder care expenses on a pre-tax basis.
- Eligible dependents include children under 13 and a spouse or other individual who is physically or mentally incapable of self-care and has the same principal place of residence as the employee for more than half the year may be a qualifying individual.
- You must provide the tax identification number or Social Security number of the party providing care to be reimbursed. You may also need a receipt.

This account covers dependent day care expenses that are necessary for you and your spouse to work or attend school full time. Examples of eligible dependent care expenses include:

- In-home babysitting services (not provided by a tax dependent)
- Care of a preschool child by a licensed nursery or day care provider
- Before- and after-school care
- Day camp
- In-house dependent day care

How do I use my FSA?

You can use your FSA debit card at doctor and dentist offices, pharmacies and vision service providers. It cannot be used at locations that do not offer services under the plan, unless the provider has also complied with IRS regulations. The transaction will be denied if you attempt to use the card at an ineligible location.

If you don't have a debit card, once you incur an eligible expense, you'll submit a claim form along with the required documentation. Your FSA provider will notify you if you need to submit a receipt. Always retain a receipt for your records.

Are there any restrictions?

The IRS has the following rules and restrictions for Healthcare and Dependent Care FSAs:

- Expenses must be incurred during the plan year.
- Dollars cannot be transferred between FSAs.
- You cannot participate in a Dependent Care FSA and claim a dependent care tax deduction at the same time.
- You cannot change your FSA election in the middle of the plan year unless you experience a qualifying life event.
- You cannot have both a Health Savings Account and a Healthcare FSA.
- Healthcare FSAs are individual accounts, meaning you and your spouse can both have one and contribute up to the maximum. Dependent Care FSAs offer a family contribution option: the annual contribution limit is $2,500 per year if you file your tax return as married filing separately and $5,000 for joint tax returns.
- Those considered highly compensated employees (family gross earnings were $125,000 or more last year) may have different FSA contribution limits.

What about rollovers and grace periods?

With an FSA, you must use the money in the account by end of Plan Year; however, a Healthcare FSA may allow up to $570 to roll over to the next year.

If a grace period is in effect, users have an additional period of time after the plan year ends in which to incur extra expenses and submit them for reimbursement.

A plan can have either a rollover or a grace period, but not both. **Any unclaimed funds at the end of the run out are lost and returned to your employer.** Recent legislation has allowed employers to extend grace periods and uncap carryover amounts due to COVID-19. Check with your employer for details.

An FSA may be the tool you need to take control of your healthcare spending!

Content by Lockton Dunning Benefits with info from https://www.healthcare.gov/have-job-based-coverage/flexible-spending-accounts/, https://americanfidelity.com/blog/reimburse/fsa-mistakes-dependents/ and https://www.fool.com/retirement/2016/12/07/pros-and-cons-of-flexible-spending-accounts.aspx