Flexible Spending Accounts

What is a Flexible Spending Account? How do they work?

FLEXIBLE SPENDING ACCOUNTS

WHAT IS A FLEXIBLE SPENDING ACCOUNT?

A Flexible Spending Account (FSA) is a special type of account you (and sometimes your employer) put money into to pay for certain out-of-pocket health care expenses. Your contributions to this account are not taxed, so you will save the amount that would have been paid in taxes on this money.

"USE OR LOSE" RULE

FSAs are subject to a "use or lose" rule, as required by the IRS. This means that the money in the account must be spent by the end of the plan year and can't be carried over to the next year. When choosing your contribution for the year, you should be careful to choose an amount that is enough to cover expected expenses, but not so much that you may forfeit it if you don't incur enough eligible expenses over the course of the year.

Some plans may have a grace period or carry-over. A grace period, which can be up to two and a half months past the plan year, allows you to submit any qualified medical expenses incurred during the grace period using money left in the account. If your plan ended 12/31 and had a two-and-a-half-month grace period, you would have until 3/15 to spend the money in your FSA.

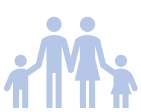
If your plan has a carry-over provision, you may carry over up to $550 (in 2021) of unused funds to next year. Plans can't have both a grace period and a carry-over. Check with your HR or FSA vendor to see if your plan has either of these provisions.

TYPES OF FSAs

There are two different types of FSAs: health care FSAs and dependent care FSAs. You can have both types of accounts at the same time and contribute to both. The money in the two types of the accounts are separate and money in one account cannot be used for reimbursement of the other type of expense.

1 HEALTH CARE FSAs

2 DEPENDENT CARE FSAs



HEALTH FSAs

Health care FSAs may only be used to reimburse qualified medical expenses. A list of what is considered a qualified expense is available in IRS Publication 502.

How much can I contribute to my health FSA?

The IRS sets a maximum contribution for the year. For 2021, the IRS maximum is $2,750. Your plan may have a lower contribution maximum. FSA funds are available up front, at the beginning of the plan year, even if you haven't fully funded the account yet. You cannot change your contribution amount outside open enrollment unless you experience a qualifying life event.

How do I use my health FSA?

First, note that FSAs can only be used for expenses that have already been incurred—you can't use them for future or anticipated expenses. After paying for the qualified products or services, you will submit a claim to the FSA through your employer. The claim needs to include proof of the medical expense and a statement that it has not been covered by your costs. For more detailed information about how to use your specific FSA, reach out to your HR or FSA vendor.

What is considered a qualified medical expense?

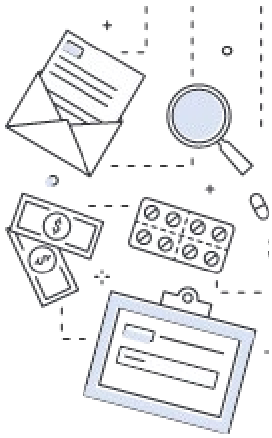
- Deductibles and copays for your medical plan (not premiums)
- Prescription medicine
- Over-the-counter medicine
- Some medical equipment like crutches, or diagnostic devices like blood sugar test kits

See IRS publication 502 for more detailed information on what is covered.

HOW REIMBURSEMENT WORKS:

TIP:
Always keep your receipts from a product or service to substantiate your claim and keep with your tax documents!

DEPENDENT CARE FSAs



Dependent Care FSAs may be used to reimburse expenses for the care of a qualifying individual to enable you (and your spouse) to work or actively look for work. It is also sometimes called a Dependent Care Assistance Program (DCAP). Common eligible expenses include:

- Day care or after school care for a child under age 13
- Elder care for dependent parents
- Summer day camps for a child under age 13
- Care for a disabled spouse or dependent incapable of self-care.

How much can I contribute to my Dependent Care FSA?

Generally, the maximum amount that may be contributed to the Dependent Care FSA is $5,000 and determined on a calendar year basis. Lower limits may apply if the employee is married and filing separately or when the spouse earns less than $5,000 per year or is a full-time student.

Amounts contributed to the Dependent Care FSA are subject to the “use or lose” rule. This means any unused contributions remaining at the end of the plan year are lost, unless the plan includes a grace period (which provides up to 2.5 months to access unused contributions following the end of the plan year). Review your plan documents to understand whether a grace period is available.

How do I use my Dependent Care FSA?

The Dependent Care FSA may only be used for eligible expenses that have been provided and the services were rendered during the plan year. You can’t seek reimbursement for future or anticipated expenses. For example, a claim for dependent care services for the month of June cannot be reimbursed until June has ended.

After paying for the eligible services, you will submit a claim to the Dependent Care FSA through your administrator. You will need to substantiate the claim, which will include the provider, date of service and the amount. Unlike the Health FSA, only amounts actually contributed to the dependent care FSA are available for reimbursement.

You cannot be reimbursed for expenses which for which you claim the dependent care tax credit.

See IRS Publication 503, Child and Dependent Care Expenses for more information on eligible expenses.