FSA’s: Frequently Asked Questions

○ What is a Flexible Spending Account?

A Flexible Spending Account (FSA) provides a tax–advantaged way to pay for eligible out–of–pocket healthcare expenses and work–related dependent day care expenses. Authorized by the Internal Revenue Code, Section 125, an FSA allows you to pay for eligible expenses with “pre–tax” dollars, thereby lowering your taxable income.

A Healthcare FSA allows you to set aside money on a pre–tax basis to pay for qualifying out–of–pocket medical, dental, vision or hearing expenses. Out–of–pocket expenses are those that are not covered by your existing insurance plans. These expenses include deductibles, coinsurance and co–pays and certain over–the–counter (OTC) expenses.

A Dependent Day Care FSA allows you to set aside money on a pre–tax basis to pay for child or adult day care expenses so that you and, if married, your spouse can work. These expenses include day care, before–and–after school programs, nursery school or preschool, summer day camp and even adult day care.

○ What is the main advantage of enrolling in an FSA?

The main advantage of an FSA is that you do not pay federal income taxes or social security taxes on the amount you elect to contribute to your FSA.

By participating in an FSA, you pay less in income taxes because your contributions are deducted from your pay on a pre–tax basis. Now you can use your tax savings to pay for things you really want—like new clothes, vacations, hobbies or even a gym membership.

○ How does an FSA work?

Managing your FSA is as easy as 1–2–3:

1. Estimate the amount you will spend on out–of–pocket healthcare expenses and/or dependent care expenses during the plan year.

2. Decide how much you wish to set aside into your Healthcare FSA and/or your Dependent Day Care FSA. The amount(s) you wish to set aside will be deducted from your paycheck (on a pre–tax basis) in equal amounts each pay period.

3. As you incur eligible healthcare and/or dependent day care expenses throughout the year, you can get reimbursed by submitting a claim. You have 90 days following the end of the plan year to file claims incurred during the plan year.

○ How much money can I expect to save in taxes with an FSA?

You can save on federal taxes, social security taxes as well as state income taxes in most states. Generally, federal taxes range from 15% to 28% and social security taxes equate to 5.65%.

Adding these amounts to your state tax will generally bring your tax savings to approximately 30% on the money you elect to contribute to your FSA.
Can I change my election during the plan year?
Due to IRS regulations, your election decision remains in effect for the plan year – unless you have a Qualifying Life Event or status change, such as a marriage, birth or death of a dependent, for example.

How do I apply for a change in my election?
Internal Revenue Service (IRS) guidelines allow you to change your plan contribution during the plan year only for the following qualifying events:

- Change in legal marital status (marriage, divorce, legal separation, annulment or death of a spouse)
- Change in number of tax dependents (birth, adoption or death)
- Change in employment status that affects eligibility
- Dependent satisfying or ceasing to satisfy coverage requirements (reaching limiting age, gain/loss of student status, marriage)
- Change in residence that affects eligibility

The process for changing your election due to a status change is ultimately determined by your employer; please contact your Human Resources/Benefits Department to verify this process.

How do I get reimbursed?
As you incur eligible healthcare and/or dependent day care expenses throughout the year, you can get reimbursed by submitting a claim.

Do I have to enroll in my employer’s medical or dental plan in order to participate in an FSA?
No, enrollment in other group plan(s) is not required in order to participate in an FSA.

If my spouse and I are employed by the same employer, can we claim each other’s expenses on our respective accounts?
You can either claim your spouse’s expenses on your Healthcare FSA or your spouse can claim your expenses on his/her Healthcare FSA. You both cannot file for the same expenses under both accounts. In other words, you cannot “double-dip.”

Is there a maximum that I can contribute to a healthcare FSA?
Yes, effective your first plan year beginning on or after January 1, 2013, the Healthcare Flexible Spending Account (FSA) annual maximum contribution amount will be $2,500. The new limit is on a per-participant basis.

If both you and your spouse are eligible to participate in an employer–sponsored healthcare FSA, you may each contribute up to the individual limit of $2,500 if your spouse’s employer’s plan also offers the IRS maximum of $2,500.

Is there a maximum that I can contribute to a dependent day care FSA?
Yes, the IRS maximum is currently $5000 per household per plan year.
My enrollment material says that dependent day care expenses must be "work-related." What does "work-related" mean?

Work-related means that the expenses must be incurred to enable you (and your spouse if married) to work and earn an income. It does not include unpaid volunteer work or volunteer work for a nominal salary. For the IRS definition of work-related expenses, please refer to IRS Publication 503.

What expenses are considered eligible expenses under a dependent day care FSA?

For a listing of eligible expenses, visit Resource Center and click Planning Tools. For more information, please refer to IRS Publication 503.

If I participate in the dependent day care FSA plan, do I need to report anything on my personal income tax return at the end of the year?

Yes, you must identify all persons or organizations that provide care for your child or dependent by filing IRS Form 2441–Child and Dependent Care Expenses, (see Instructions for IRS Form 2441), along with your Form 1040 each year (or Schedule 2 for Form 1040A). Please consult your tax advisor if you have specific questions.

If I use the dependent day care FSA, can I also use the federal tax credit for dependent day care expenses?

Yes; however you cannot use a Dependent Day Care FSA and take a tax credit on your tax form for the same dependent day care expenses. In addition, the maximum amount that you can claim for the tax credit ($6000 with two or more dependents and $3000 with one dependent) must be reduced by your dependent day care account reimbursements.

For example, if you have two dependents and contribute $5000 to your FSA, you must subtract that $5000 from your tax credit maximum ($6000) leaving only $1000 in dependent care expenses that you can still claim when filing your federal tax return. Individual situations may differ so please always consult with your tax advisor for specific tax questions.

What happens to the funds left in my account at the end of the plan year?

IRS regulations require that any funds left in your account, remain with the plan and regulations do not allow your employer to return these unused funds to you. In most cases, the employer applies any unused funds to the administration fees of the plan. The plan document usually dictates how the employer may use the forfeited funds.

How do I avoid leaving funds in the plan?

You can avoid forfeitures by reviewing your prior year’s out-of-pocket expenses to help estimate what you will spend in the next year. Make sure to be conservative and plan for predictable expenses.

What happens if I leave my company or my employment is terminated?

 Generally, upon termination of employment, you may continue to submit healthcare or dependent day care claims incurred prior to termination and up to the amount of the balance in your account. Claim submission after termination of employment is ultimately determined by your employer; please contact your Human Resources/Benefits Department to verify this information.