What You Need to Know about
Health Flexible Spending Accounts

A health flexible spending account (FSA) is a pre-tax account used to pay for out-of-pocket health care costs for a participant as well as a participant's spouse and eligible dependents. Health FSAs are employer-established benefit plans and may be offered with other employer-provided benefits as part of a cafeteria plan. Self-employed individuals are not eligible for FSAs.

Even though a health FSA may be extended to any employee, employers should design their health FSAs so that participation is offered only to employees who are eligible to participate in the employer's major medical plan. Generally, health FSAs must qualify as excepted benefits, which means other nonexcepted group health plan coverage must be available to the health FSAs participants for the year through their employment. If a health FSA fails to qualify as an excepted benefit, then this could result in excise taxes of $100 per participant per day or other penalties.

Contributing to an FSA

Money is set aside from the employee's paycheck before taxes are taken out and the employee may use the money to pay for eligible health care expenses during the plan year. The employer owns the account, but the employee contributes to the account and decides which medical expenses to pay with it.

At the beginning of the plan year, a participant must designate how much to contribute so the employer can deduct an amount every pay day in accordance with the annual election. A participant may contribute with a salary reduction agreement, which is a participant election to have an amount voluntarily withheld by the employer. A participant may change or revoke an election only if there is a change in employment or family status that is specified by the plan.

Per the Patient Protection and Affordable Care Act (ACA), FSAs are capped at $2,600 per year per employee. However, since a plan may have a lower annual limit threshold, employees are encouraged to review their Summary Plan Description (SPD) to find out the annual limit of their plan. A participant's spouse can put $2,600 in an FSA with the spouse's own employer. This applies even if both spouses participate in the same health FSA plan sponsored by the same employer.

Generally, employees must use the money in an FSA within the plan year or they lose the money left in the FSA account. However, employers may offer either a grace period of up to two and a half months following the plan year to use the money in the FSA account or allow a carryover of up to $500 per year to use in the following year.

Covered Expenses

Only eligible out-of-pocket medical care expenses can be reimbursed under the FSA. As defined by the IRS, medical care includes items and services that are meant to diagnose, cure, mitigate, treat, or prevent illness or disease. Transportation is also included if it is primarily for medical care.

Participants may use FSA funds for:

- Deductibles
- Copayments
- Prescription medications
- Over-the-counter (OTC) medications with a doctor's prescription
- Insulin
- Medical equipment (crutches, bandages, diagnostic devices like blood sugar test kits)
- Dental care (X-rays, cleanings)
- Vision care (exams, eyeglasses, contact lenses, laser eye surgery)
- Transportation primarily for medical care

Participants may not use FSA funds for:

- Insurance premiums
- Nonprescription drugs and medicines (aspirin) unless the participant has a valid prescription for the OTC medication
- Prescription drugs imported from another country
- Herbs, vitamins, and supplements for general health

Expenses are incurred when the employee receives medical care and not when the employee is billed or charged for medical care. As a result, the date of service must be within the current plan year and not be the payment date.

Reimbursement

The employer chooses when reimbursements are made. Participants should check the SPD for the reimbursement schedule. Expenses reimbursed under the health FSA cannot be reimbursed under any other plan or program because double dipping is prohibited.

Participants should save supporting documentation related to their FSA expenses and claims to verify the eligibility of their expenses. To get reimbursed for an OTC medication expense, a participant must include a Request for Reimbursement Form along with one of the following supporting documents:

- An OTC prescription along with an itemized cash receipt with the merchant name, OTC medicine or drug name, and amount; or
- A pharmacy receipt or statement with the patient's name, the Rx number, the date the prescription was filled, and amount.