INDEPENDENT WEALTH MANAGEMENT

Is a Health Care Flexible Spending Account a Good Idea?

With flexible spending accounts (FSAs), you can reduce your tax bill while setting aside money for health care costs. This article considers the pros and cons of FSAs.

A flexible spending account (FSA), offered as an elective benefit by many employers, permits workers to contribute, through payroll deduction, to accounts that are designated for specific qualifying medical or dental expenses. If your employer makes an FSA available, the account typically is used in conjunction with your employer-sponsored medical plan for out-of-pocket costs not covered under the plan. All amounts contributed are pretax and funds are not taxed when spent on qualifying health care costs.

Eligibility

FSAs are employer-based; Self-employed individuals are not eligible. To participate, you usually must enroll through your employer each year, even if you do not want your deduction amounts to change from year to year. (Some plans vary.) Employers generally offer enrollment during open enrollment periods when you enroll for the entire plan year. If you want to change or revoke your election before the end of the plan year, you typically can do so only if your plan permits a change due to circumstances in your employment or family status.

Contributions

Before contributing to an FSA, you must first designate how much you want to contribute for the year, based on an estimate of your expected out-of-pocket costs. Your employer will then deduct amounts from your paycheck in accordance with your annual election. For 2015, you may contribute up to $2,550.

You do not pay federal income tax or employment taxes on the salary you contribute or on any amounts your employer may contribute to the FSA. A plan may offer a grace period at the end of each plan year to spend down unused balances or it may provide a limited carryover to the subsequent plan year, but neither is required. Since any unused amounts are forfeited, it is important not to overestimate the qualifying expenses you expect to incur during the year.

Eligible Expenses

Eligible expenses include most of the out-of-pocket costs not fully covered by your health plan, including copayments, deductibles, vision care, prescriptions, over-the-counter medicines, dental care, tests, and medical supplies, among others. See IRS Publication 502 for a more detailed list of qualifying expenses. Generally, allowable items are the same as those that qualify for the medical tax deduction, although you cannot deduct expenses paid from your FSA account on Schedule A of your federal tax return.

236 ½ East Front Street
Traverse City, Michigan
49684

231 929 1086 *tel*
888 929 1086 *toll free*

231 929 1086 *fax*
iwmusa.com *web*

Filing Claims

In order to use funds set aside in your FSA, you must either submit claims for reimbursement or use the debit card, credit card, or stored value card provided by the vendor overseeing the FSA. Such cards allow you to access your FSA at specified health care providers and retail outlets that have an IRS-approved Inventory Control System. The dollar amount on the card is tied directly to your available FSA balance, and each purchase you make with the card draws from available funds in your health care FSA. For more information on reimbursement procedures or how to file claims, talk to your employee benefits administrator.

Not for Everybody

Whether an FSA will suit your needs depends largely on the out-of-pocket costs you expect to incur and how accurately you can predict them. If you expect to incur no more than a few hundred dollars over the course of the year, it may not be worth the trouble of setting up an FSA. On the other hand, for those with predictable medical costs or ongoing treatments that are not covered by an employer-sponsored medical plan, an FSA can be a good way to set aside funds while lowering your tax bill. Ultimately, the decision boils down to your particular circumstances and needs.