

FLEXIBLE SAVINGS ACCOUNTS (FSA)

FACTORS TO CONSIDER WHEN
CHOOSING TO PARTICIPATE IN
AN FSA



It's no secret. The cost of health care plans in the United States continues to rise.

INDUSTRY SOURCES REPORT:

- On average, employees will pick up 22% of total health plan premium costs.
- The average monthly health insurance premium for a 40-year old now tops \$477/month.
- Large employers expect their health plan costs to rise about 4.4%.

Fortunately, there's help for individuals who want to manage the financial burden of rising healthcare expenses. Especially if your employer offers the opportunity to participate in a flexible spending account (FSA). When paired with most types of traditional health insurance plans, an FSA allows you to set aside money on a pre-tax basis which you can use on a [wide range of qualified, out-of-pocket healthcare expenses](#).

3 Factors to consider before choosing an FSA

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HOW FSAS WORK

Decide how much you want to contribute to your FSA.

Every year, usually at enrollment time, you need to calculate how much you want to set aside in your FSA for the following year. Then, once the year starts, that amount will be deducted from your paychecks over the course of the year, so you are not paying the full amount up front. and can pay for anticipated out-of-pocket health-related expenses. Just be aware that once you decide on an amount, you won't be able to change it unless your FSA permits that or you experience a major change in family status.

Another rule? You must use all amounts contributed to your FSA in the same year. FSA funds left in your account at the end of the year generally do not carry over into the next year. So, make sure you carefully estimate how much money you want to contribute. Otherwise, you may lose unspent dollars, unless your employer offers one of two options.

Option #1: Grace Period

Your employer may offer a grace period that can last up to March 15 of the following year. This gives you a little extra time to spend unused funds from the previous year's FSA for qualified health expenses.

Option #2: Carry Over Funds

Your employer may allow you to carry over up to \$570 of unused funds to the next year.

Employers aren't required to offer either of these options AND if they do, only ONE may be offered, not both.

Access funds in your account with a debit card.

Similar to how a checking account works, FSAs often come with a debit card that's linked to your balance which you can use to pay for eligible medical expenses. Or you can pay for these expenses out of pocket, and then submit a receipt for the bill at a later time to get reimbursed from your FSA. **Note:** *All annual funds are available to be used on day one of the plan year - as opposed to Dependent Care FSAs.*

Know what qualifies as eligible medical expenses.

These are determined by the IRS, and include deductibles, copays, coinsurance, and many over-the-counter supplies - but not insurance premiums. Check with your employer or the [IRS website](#) to see which expenses are covered (and which are not).

If you use FSA funds for expenses that are not allowed under IRS rules, you will be subject to penalties.

Understand different types of FSAs.

There are several types of FSAs that your employer may offer that you can pair with a traditional health insurance plan.

Health FSA: A health FSA can be used to pay for out-of-pocket medical bills, such as co-pays, prescriptions, and deductibles. It has a pre-tax benefit that can help lower your taxable income, and you can withdraw tax-free funds if you use them to pay for qualifying expenses.

The annual contribution limit in 2022 is \$2,850.

Dependent Care FSA: A dependent care FSA can be used to pay for daycare expenses for a loved one, like a child under the age of 13 or an adult dependent. It's important to know that the entire amount may not be available from day one. It comes with a pre-tax benefit that can help lower your taxable income, and also tax-free withdrawals if you use it to pay for out-of-pocket dependent care expenses.

The amount that can be excluded for DCAP benefits is limited to \$5,000 (or \$2,500 for married individuals filing separately), subject to certain earned income limitations.

Limited Purpose Health Care FSA: A limited purpose health care FSA can be used to pay for eligible vision or dental care. If you are enrolled in a high-deductible health plan (HDHP) and contribute to a Health Savings Account (HSA), you can increase your savings with this FSA. Some of the key benefits include that HSA funds keep growing tax-deferred because you tap into the money in your FSA instead, which you must use (or lose) every year. Like with other FSA options, it also has a pre-tax benefit that can help lower your taxable income, and you can withdraw tax-free funds if you use them to pay for eligible health expenses.

In 2022, the annual contribution limit is \$2,850. Be sure to plan carefully. You can only carry over up to \$570 if a balance remains in your account from one year to the next if employer allows it.

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ADVANTAGES AND DISADVANTAGES

When deciding whether or not you should choose to contribute to an FSA, you'll want to keep in mind key advantages and disadvantages.

Advantages of FSAs

- Pre-tax contributions you save in the account lowers your taxable earnings
- Full amount is available for use from day one (except with Dependent Care FSA)
- Greater peace of mind that you can pay for health-related and dependent care expenses
- Flexibility to pay for a variety of eligible health costs
- Can be paired with traditional health insurance plan offered by employer

Disadvantages of FSAs

- If employer doesn't offer a grace period or carryover option, you use it or lose it
- May be difficult to determine how much money to put into an FSA
- Not "portable", so you can't keep your FSA if you change jobs mid-year or become unemployed

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SAVINGS COMPARISON

Whether you're covered by a low- or high-deductible health insurance plan, you may be able to reap financial benefits by also contributing to an FSA.

Of course, everyone's financial situation is different and will vary based on individual tax bracket and circumstances. But, if you want to get an idea of the overall savings you may be able to gain by contributing to an FSA, consider talking to your benefits administrator about cost comparison charts and tools they might be able to provide for you to get a more concrete idea of just how much you can save on your out-of-pocket healthcare expenses with an FSA.

[Connect with our Employee Benefits team](#) for more information about FSAs for your employees.

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