

Flexible Spending Accounts (FSA)

What is an FSA?

An FSA is an account established by an employer to allow employees to redirect a portion of their salary to cover otherwise un-reimbursed medical expenses with pre-tax dollars.

FSA Plan Features

- The employer determines which employees are eligible to participate in an FSA and the maximum annual contribution limit.
- The employee generally funds an FSA, however, an employer may also contribute to an FSA on behalf of the employee. .
- Employees can access their full annual FSA contribution on the first day of the plan year.
- FSA contributions must be determined prior to the plan year start and cannot be changed unless there is a corresponding “family status change”.
- The employee will forfeit any unused funds in an FSA at the end of the plan year.

Why would I want an FSA?

An FSA allows employees to save money on uncovered medical expenses. FSA dollars are typically used to pay for expenses such as deductibles, coinsurance, and orthodontics.

Employers will save by excluding all FSA contributions from payroll taxes.

An FSA is a low cost benefit to an employer that can deliver a substantial perceived and monetary value for employees.

Does an employer have any financial risk when offering an FSA?

Yes. Because an employee can access their full annual FSA election on the first day of the plan year, an employer could be impacted if an employee receives an FSA reimbursement that exceeds their year-to-date contribution and then leaves employment.

How can an employer guard against that potential loss?

An employer can define eligibility to limit FSA availability to staff that is least likely to turnover. The employer can also limit the maximum annual FSA contribution.

What is a “family status change”?

There are several status changes that enable an employee to change their FSA election mid-year. View our pre-tax guidelines for more information.