Flexible Spending Plans

What's a flexible spending plan?

There are special types of savings accounts that can help you cover out-of-pocket medical costs with pre-tax dollars. These "flexible spending plans" (FSPs) let you set aside money from your paycheck to help pay for qualified medical expenses like **copays**, **deductibles** and **coinsurance.** You may also be able to use the money in your account for glasses, contact lenses and medical devices and more. Because the contribution comes out of your salary before taxes, FSPs can help you stretch your dollars to cover a larger share of your out-of-pocket medical costs. It's important to note that these types of plans are set up and maintained by you and/or your employer—your health insurer is not involved.

What's a qualified medical expense?

You can use the money in an FSP for many different kinds of medical and dental expenses, for you and your family. To find a list of qualified medical expenses, see the IRS publication *Medical and Dental Expenses*. This list changes regularly, so make sure to check it now and then if you are using a flexible spending plan.

Some examples of qualified medical and dental expenses include copays and deductibles, medications, medical equipment such as crutches and bandages, hospital stays, braces or dentures, and more. However, you usually cannot use an FSP to pay for insurance premiums.

Keep in mind—in most cases, participants in FSPs cannot use their accounts to buy over-the-counter medications (except insulin), unless they have a prescription from their provider.

Check your plan documents or ask your employer's human resources department about these rules, so you can be sure you understand how ***your*** plan works.

Types of FSPs

There are three main types of FSPs—flexible spending arrangements (FSAs), also known as flexible spending accounts; health savings accounts (HSAs); and health reimbursement arrangements (HRAs).

Each of them has different features and rules.

Flexible Spending Arrangement (FSA)

How does it work?

With an FSA, employees decide how much of their pre-tax income to put into their account. Employers may make additional contributions to the account, too.

What if I don't use all the money?

An FSA is a "use it or lose it" account. At the end of the year, employees can't carry forward any unused money. So, if you have an FSA, it's important to think carefully at the beginning of each year about how much you may need to spend on medical care over the next twelve months.

Some employers may offer you either a "grace period" of up to 2 and a half extra months into the next year to use your FSA funds **or** may allow you to carry over a maximum of $500 to use in the following year. If you are unsure about whether your employer offers either one of these options, ask your employer's human resources department for more information.

Are there contribution limits for FSAs?

Yes. Individuals may contribute a maximum of $2,600 from their salaries to their FSA to use in 2017. Those with dependents, including a spouse and/or children, may contribute a maximum amount of $5,000 for 2017. The maximum contribution amounts increase with inflation each year.

Health Savings Account (HSA)

How does it work?

HSAs also allow employees to set aside pre-tax dollars to pay for qualified medical expenses. But, these accounts are only available to people enrolled in High-Deductible Health Plans (HDHPs). HDHPs have lower premiums than traditional health plans, but the trade-off is that they have very high **deductibles**. People in HDHPs tend to have higher out-of-pocket costs. HSAs can help cover those costs.

Employees decide how much to contribute to their HSAs. Employers and others, like an employee's family members, may make contributions to these accounts, too. There is a limit on the amount of pre-tax money that can be contributed each year. For 2017, individuals may contribute a maximum of $3,400. Those with dependents, including a spouse and/or children, may contribute a maximum amount of $6,750. The rules for how much you, your employer and others may contribute to your account, and the tax implications for those contributions, are complicated. Talk to a trusted expert about these rules.

What if I don't use all the money?

Money in an HSA will "roll over" year to year if not spent. Participants in HSAs can carry the accounts over to a different employer if they change jobs, and can even carry them into retirement. But, it's important to remember that there are significant tax penalties if the money is used for anything other than qualified medical expenses.

Health Reimbursement Arrangement (HRA)

How does it work?

In an HRA, employers contribute all the money to an employee's account. Employees can then use the funds to pay for qualified medical expenses covered by the employer's group health insurance plan.

What if I don't use all the money?

Not all HRAs have the same rules about carrying unused money forward from year to year. Whether participants can carry unused money forward will depend on how the employer set up the plan. Participants in HRAs cannot carry the accounts over to a different employer. If you are in an HRA, make sure to read your plan documents carefully or ask your employer's human resources department about what happens to unused funds at the end of the year, or if you leave your job.

Your Action Plan: Stay Up-to-Date

The IRS rules governing FSPs can change regularly. If you are enrolled in an FSP, it's important to stay up to date on new developments, like changes in the list of qualified medical expenses, pre-tax contribution limits, and early withdrawals.

- Read your plan documents carefully. Flag any questions and speak to your employer's human resources department to clarify them.
- Take advantage of **online tools**, such as the ones on this website, to help you plan your medical and dental care expenses.
- Keep current on the **IRS publication** that details qualified medical expenses.

Taking the time to stay current can help you get the most out of your flexible spending plan account, and avoid any unwelcome surprises.