A New Look At Flexible Spending Plans

What's a Flexible Spending Plan?

Some employers offer a special type of account to help you cover some of your out-of-pocket medical costs with pre-tax dollars. If you have one of these "flexible spending plans" you can set aside money from your paycheck to help pay for qualified medical expenses like co-pays, deductibles and co-insurance. You may also be able to use it for glasses, contact lenses and medical devices. 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.

What's a "qualified medical expense"?

A qualified medical expense is generally anything that the IRS allows for the medical and dental expense deduction when you file your taxes. These can include co-payments and deductibles, insurance premiums, medications, hospital stays, and more. All qualified medical expenses are listed in 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.

Types of Flexible Spending Plans

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, too.

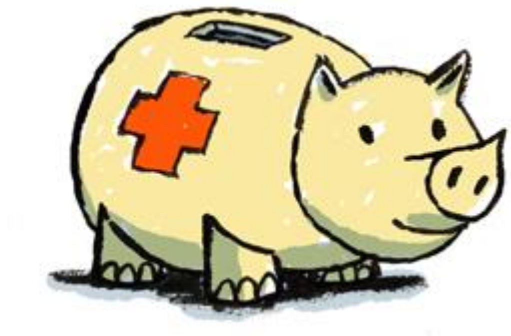
What if I don't use all the money?

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 about how much you may need to spend on medical care during the year.

Are FSAs affected by the health reform law?

Yes. Right now, there are no contribution limits for FSAs. But, under the Patient Protection and Affordable Care Act, people with FSAs will only be able to contribute up to $2,500 from their salary each year beginning in 2013. The amount is supposed to increase with inflation each year after that.

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, they 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. So, people in HDHPs tend to have higher out-of-pocket costs. HSAs were set up to help cover those costs.

Employees decide how much to contribute to their HSAs. Employers may make additional contributions, too. There is a limit on the amount of money that can be contributed each year.

What if I don't use all the money?

An HSA belongs to the employee. 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 very large tax penalties if the money is used for anything other than qualified medical expenses.

Are HSAs affected by the health reform law?

Yes. In January 2011, the penalty for using HSAs for anything besides qualified medical expenses doubled from 10% to 20%.

Health Reimbursement Arrangement (HRA)

How does it work?

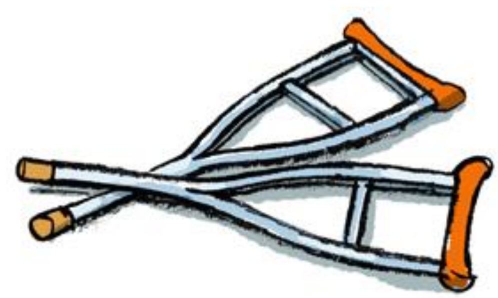
In an HRA, employers contribute all the money to an employee's account.

What if I don't use all the money?

Participants in HRAs may or may not be able to carry unused money forward from year to year, depending on how the employer has set up the plan. But, if they change jobs, participants in HRAs cannot carry the accounts over to a different employer. In that case, employees may still be able to use the remainder of the money for medical costs, but it depends on how the plan is set up. If you are in an HRA, make sure to read your plan documents carefully or ask your employer about what happens to unused funds at the end of the year, or if you leave your job.

More Health Reform Changes to FSPs

The health reform law will bring some other changes to flexible spending plans, too, such as:



- In most cases, participants in FSPs will not be able to use their accounts to buy over-the-counter medications (except insulin), unless they have a written prescription from their doctor.
- Participants with FSP debit cards will need to show a written prescription from their doctor to use their debit card at the retail pharmacy or through mail order.

These changes may affect your plan in different ways. Check your plan documents or ask your employer about these rules, so you can be sure you understand how *your* plan works.

Your Action Plan: Stay Up-to-Date

The IRS changes the rules on FSPs regularly, and the health reform law may bring more changes, too. If you are enrolled in an FSP, it's important to stay up-to-date on new developments, like changes in qualified medical expenses, limits and early withdrawals.

- Read your plan documents carefully. Flag any questions and speak to your Human Resources department to clarify them.
- Take advantage of online tools.
  - http://www.irs.gov/publications/p969/ar02.html
  - http://www.healthcare.gov/law/features/costs/fsa-hra/index.html

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