



# Family Health Budget

## Overview of Flexible Spending Accounts

### All About FSAs

From FamilyHealthBudget.com

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## Flexible Savings Account Toolkit

### Five fast facts about the Flexible Spending Account (FSA)

1. **FSA contributions come out of your paycheck before taxes are taken out. You don't pay federal taxes on FSA funds.**
2. **Only people with group health coverage can have an FSA. Employees can contribute to their own account; Medicare-eligible retirees can have an employer-funded FSA.**
3. **You can spend FSA money tax-free on IRS-approved expenses, such as medical, dental, pharmacy, and vision costs.**
4. **Your entire yearly contribution is available to spend on the first day of the plan year – even before all the money goes into your account.**
5. **If you don't spend all your FSA money during the plan year, you have to forfeit what's left. However, your employer can allow a grace period after the plan year ends.**

### FSA Basics

#### How it works

The Flexible Spending Account – FSA for short – is designed to help you reduce health care costs and make budgeting easier. When you set up a health care FSA, your employer takes money out of your paycheck before federal taxes. Depending on where you live, you may get a break on state taxes, as well. Then you draw on the funds during the plan year to pay for eligible expenses. FSA funds can't be carried over to the next year. If you leave your current employer, you can't take the money with you – but you do have a “window” when you can file claims for expenses you had before you left the employer.

#### FSA advantages

An FSA helps you plan for health care expenses while also saving you money.

- **It saves you money on taxes.** When you use tax-free dollars to pay for items and services you'd normally pay out-of-pocket, it's like you're getting a discount.
- **Your entire FSA is available immediately.** You have access to the full annual amount of your health care FSA on the first day of the plan year.
- **It isn't tied to a certain kind of plan.** The FSA can cover out-of-pocket costs associated with any kind of health plan – not just one with a high deductible. You can even sign up for an FSA if you opt out of your employer's health plan.
- **It's easy to use.** With many FSAs, you can use a special debit card to pay directly from your account. Just be sure to save your receipt in case you need to verify an expense.

## Sounds great! Where do I sign up?

Many employers offer FSAs. If yours does, simply set up your paycheck deductions during your open enrollment period. You decide how much to put in the account, within certain limits (though the IRS doesn't regulate minimum and maximum contributions, your employer is allowed to set a limit). If you have childcare or adult day care expenses, you may be able to sign up for a dependent care FSA, too – which can save you even more money. If you're self-employed or between jobs, the FSA isn't an option for you – but you may be eligible for a Health Savings Account (HSA).

And keep in mind that the FSA doesn't carry over from year to year, so you'll want to plan carefully. Before you sign up, use the "Add Up Your FSA Savings" section on page 8 of this kit, or the FSA calculator on [FamilyHealthBudget.com](http://FamilyHealthBudget.com), to get an idea of:

- **How much health care you've used in the past.** Gather your medical expense records – your calendar, checkbook, receipts, and Explanation of Benefits summaries – to see the services you received and how much you paid for copayments, deductibles, and coinsurance.
- **What you'll need in the future.** Think about whether you or anyone your plan covers is expecting something this year, like surgery or pregnancy.

## Frequently Asked Questions

### Tell me again, how can bringing home *less* of my paycheck help me get *more* for my money?

Sure, your paycheck might look smaller when you have an FSA, but you get all that money back ... and more. Remember, you're using your FSA to pay for something you'd buy anyway. Instead of using your take-home pay – money the IRS has already taken a cut of – you're using money the federal government hasn't touched. So if your federal tax rate is 28 percent, you're getting 28 percent more stuff for the same amount of money.

Here's an example: Last year, Laura made \$28,000 and put \$1,500 in her health care FSA. The example below shows how much she saved by using the pre-tax money for eligible health expenses. Without an FSA, she would have paid for these expenses from her take-home pay, which she paid taxes on.

Example of annual savings*	With FSA	Without FSA
Laura's taxable income	\$28,000	\$28,000
Pre-tax money deposited into her FSA	-\$1,500	-\$0
Laura's remaining taxable income	\$26,500	\$28,000
Minus Federal and Social Security taxes	-\$9,447	-\$9,982
Take-home pay spent on FSA-eligible health care expenses	-\$0	-\$1,500
Laura's remaining take-home pay	\$17,053	\$16,518

Putting pre-tax money in an FSA saves Laura **\$535**. Plus she's prepared to handle expenses when they come up – so she doesn't need to dip into her take-home pay or use a credit card.

\* This example is intended to demonstrate a typical tax savings based on 28 percent federal and 7.65 percent FICA taxes. Actual savings will vary based on your tax situation.

## Once I sign up for an FSA, what else do I need to do?

That's it. Contributions will be deducted from each paycheck automatically, beginning with the first paycheck after the effective date of the new plan year. At the beginning of your plan year, you may receive a debit card you can use to pay for eligible items directly from your account.

## How much will be deducted from each paycheck?

To figure out how much will be deducted from each paycheck, divide your annual contribution by your number of pay periods per year.

## What can I pay for with FSA money?

You can spend FSA funds on items approved by your employer and the IRS. The list usually includes:

- Doctor's office visits
- Dental services
- Eye exams, eyeglasses, contact lenses and solution, and laser surgery
- Hearing aids
- Orthodontia, dental cleanings, and fillings
- Prescription drugs and over-the-counter medications
- Physical therapy, speech therapy, and chiropractic expenses

## What if I don't use all of the money in my health care FSA during the plan year?

If you don't use all of your health care FSA funds, you might have a couple of months to use up your money, but anything left after your employer's chosen deadline is forfeited. A new IRS rule allows a 2½-month grace period to incur new claims after the plan year ends – but your employer can choose not to allow the grace period. If you have money remaining at the end of the plan year, it's likely you can find something to spend the money on, like new glasses or a screening exam you've been putting off.

## Can I have a Health Reimbursement Arrangement (HRA) and an FSA?

Yes. If you have an employer-funded HRA, as well as an FSA, your employer determines which funds are used first.

## Can I have a Health Savings Account (HSA) and an FSA?

If you or your spouse also have a Health Savings Account (HSA), you can have an FSA only for limited purposes – dental, vision, and preventive care expenses.

## Sample Budgets with FSAs

### Angelique – age 26, married and expecting a child, health coverage through employer

Angelique’s PPO plan requires copayments for doctor’s office visits and prescriptions. After a \$500 deductible, the plan has 70 percent coinsurance for doctors and hospitals on the list of participating providers. She doesn’t have insurance coverage for dental or vision care.

Not including premiums, Angelique’s expenses for the year total \$1,885:

Category	Angelique’s Expenses
<b>Medical</b> <ul style="list-style-type: none"> <li>• Adult and baby doctor’s office visits</li> <li>• Lab tests</li> <li>• Hospital costs</li> </ul> <i>Because Angelique meets her deductible, insurance pays part of these expenses</i>	<b>\$1,655</b>
<b>Prescriptions</b> <ul style="list-style-type: none"> <li>• Five prescription copayments</li> </ul>	<b>\$185</b>
<b>Over-the-counter Medicines</b> <ul style="list-style-type: none"> <li>• Prenatal vitamins</li> </ul>	<b>\$45</b>
<b>Dental</b> <ul style="list-style-type: none"> <li>• None</li> </ul>	<b>\$0</b>
<b>Vision</b> <ul style="list-style-type: none"> <li>• None</li> </ul>	<b>\$0</b>
<b>Medical Equipment and Other</b> <ul style="list-style-type: none"> <li>• None</li> </ul>	<b>\$0</b>
<b>TOTAL HEALTH CARE COSTS (NOT INCLUDING PREMIUMS)</b>	<b>\$1,885</b>

Angelique has \$70 taken out of each paycheck to fund her FSA. Since she gets paid twice a month, that’s \$1,680 for the whole year. Her contribution comes up a couple hundred dollars short, so she has to pay some costs with after-tax money ... but she doesn’t have to worry about losing unused funds at the end of the year. By putting away tax-free money, Angelique cuts \$420 from her federal tax bill, which is like getting a 25 percent discount on health care services she pays for with her FSA.

This example is for illustration only. The amounts will vary, depending on the plan selected, the number of people covered, and other factors.

## Jack – age 41, divorced with three children, health coverage through employer

Jack chooses a PPO plan for himself and his three children. To save money on premiums, he chooses a plan with a \$2,000 per person deductible and a separate \$100 per person deductible for prescription drugs. His plan also requires copayments for doctor's office visits and prescriptions. Jack doesn't have dental or vision insurance.

Not including premiums, Jack's family spends \$1,205 on health care during the year:

Category	Jack's Expenses
<b>Medical</b> <ul style="list-style-type: none"><li>• Five doctor's office visits</li></ul>	<b>\$480</b>
<b>Prescriptions</b> <ul style="list-style-type: none"><li>• Three prescriptions</li></ul>	<b>\$375</b>
<b>Over-the-counter Medicines</b> <ul style="list-style-type: none"><li>• Cold and flu medicines</li></ul>	<b>\$35</b>
<b>Dental</b> <ul style="list-style-type: none"><li>• Two pediatric dentist's office visits</li></ul>	<b>\$315</b>
<b>Vision</b> <ul style="list-style-type: none"><li>• None</li></ul>	<b>\$0</b>
<b>Medical Equipment and Other</b> <ul style="list-style-type: none"><li>• None</li></ul>	<b>\$0</b>
<b>TOTAL HEALTH CARE COSTS (NOT INCLUDING PREMIUMS)</b>	<b>\$1,205</b>

To fund his FSA, Jack has \$50 taken out of his paycheck every two weeks – \$1,300 for the whole year. At the end of the year, he has \$95 left in his account. Because Jack's employer allows a 2 ½-month grace period to use remaining funds on new claims, he spends the remaining money and doesn't have to forfeit \$95. Jack's FSA contributions reduce his taxable income by \$1,300, which saves him \$325 on his taxes.

This example is for illustration only. The amounts will vary, depending on the plan selected, the number of people covered, and other factors.

## Vicki – age 35, single with one child, health coverage through employer

Vicki has diabetes, so she knows to plan for lots of doctor’s office visits and testing supply expenses. She also wants to get braces for her teenage daughter, so dental coverage is a must. For health insurance, she chooses an HMO plan, which requires copayments but has no deductible. For dental insurance, she chooses a PPO plan with a \$250 deductible.

Not including premiums, Vicki’s expenses total \$3,305:

Category	Vicki’s Expenses
<b>Medical</b> <ul style="list-style-type: none"> <li>• 12 doctor’s office visits</li> <li>• One emergency room visit</li> </ul> <i>Because Vicki’s plan doesn’t have a deductible, insurance pays part of these expenses</i>	<b>\$390</b>
<b>Prescriptions</b> <ul style="list-style-type: none"> <li>• 24 prescription copayments</li> </ul>	<b>\$600</b>
<b>Over-the-counter Medicines</b> <ul style="list-style-type: none"> <li>• None</li> </ul>	<b>\$0</b>
<b>Dental</b> <ul style="list-style-type: none"> <li>• Orthodontics</li> </ul> <i>Because Vicki meets her deductible, dental insurance pays part of these expenses</i>	<b>\$1,700</b>
<b>Vision</b> <ul style="list-style-type: none"> <li>• Eye doctor’s appointment</li> </ul>	<b>\$75</b>
<b>Medical Equipment and Other</b> <ul style="list-style-type: none"> <li>• Diabetes testing equipment and supplies</li> </ul>	<b>\$540</b>
<b>TOTAL HEALTH CARE COSTS (NOT INCLUDING PREMIUMS)</b>	<b>\$3,305</b>

Vicki sets up FSA payroll deductions of \$125 per paycheck. She gets paid every two weeks, so her total annual contribution is \$3,250. Thanks to Vicki’s FSA, she has to pay only \$55 with after-tax money. The FSA reduces Vicki’s tax bill by \$812.50, a savings of about 25 percent on her health care expenses.

This example is for illustration only. The amounts will vary, depending on the plan selected, the number of people covered, and other factors.

## Add up Your FSA Savings

Virtually anyone can reduce out-of-pocket expenses with a Flexible Spending Account. Use the worksheet below to estimate your savings. Or, for a more personalized calculation, go to the FSA Calculator on [FamilyHealthBudget.com](http://FamilyHealthBudget.com) to add up your savings online.

### First, add up your FSA-eligible expenses

Category	Expected Yearly Cost
<b>Medical</b> (Office visits, X-rays, lab tests, etc.)	
<b>Prescriptions</b> (Out-of-pocket prescription drug costs)	
<b>Over-the-counter Medications</b> (Allergy medicines, smoking cessation products, at-home screening tests, contact lens solution, etc.)	
<b>Dental</b> (Exams, cleanings, braces, crowns, fillings, X-rays, etc.)	
<b>Vision</b> (Eye exams, glasses, contacts, laser surgery, etc.)	
<b>Medical Equipment and Other</b> (Testing devices, syringes, crutches, other durable medical equipment, etc.)	
<b>TOTAL</b>	

### Now calculate your tax savings

Category	Expected Yearly Cost
<b>Your FSA contribution</b> We recommend that you contribute about 80% of your total out-of-pocket expenses.	
Multiply by estimated tax rate	x.25
<b>ESTIMATED TAX SAVINGS</b>	*

\* Estimated tax savings based on federal and FICA taxes you don't have to pay on payroll deductions used to fund your account. Actual savings may vary. Consult your legal or tax advisor about your personal situation.