Flexible Benefit Plan (FSAs)

Employee Guide

Simple, Practical Information to Help You Save Money

Overview

A **Flexible Benefit Plan (FSA program)** allows you to set aside a portion of your paycheck **before taxes** to pay for eligible expenses.

Why It Matters

- Reduce your taxable income
- Increase your take-home pay
- Pay for qualified health care or dependent care expenses tax-free

This guide explains how the plan works and how to choose the options that fit your needs.

⚠️ **Note:** Specific plan details (eligibility, limits, available FSA accounts) are outlined in your employer's **Highlight Sheet** and Summary Plan Description (SPD). Please refer to those documents for the specific details of your employer's plan.

How You Save Money

When you contribute to an FSA:

- Contributions are deducted **before taxes**
- Taxes are calculated on a **lower income amount**
- This results in **less tax paid overall**

Savings Example

- Monthly salary: **$2,000**
- Health insurance premium: **$250/month**
- Expected medical expenses: **$200/month**

  Tax rates:

  - Federal: 15%
  - State: 7.5%
  - FICA: 7.65%

✅ **With FSA (Pre-Tax)**	❌ **Without FSA (After-Tax)**
Monthly Salary: $2,000	Monthly Salary: $2,000
Pre-Tax Deductions: -$450	Pre-tax Deductions: None
Taxable Income: $1,550	Taxable Income: $2,000
Taxes:	Taxes:
Federal: $233	Federal: $300
State: $116	State: $150
FICA: $119	FICA: $153
Total Taxes: $468	Total Taxes: $603
Take-home pay: $1,082	Take-home pay: $947

Savings

Monthly: $135

Annual: $1,620

What’s Included in the Plan

1. Pre-Tax Insurance Premiums

- Your portion of health insurance is deducted **before taxes** (may include dental and vision)
- Reduces overall taxable income

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2. Flexible Spending Accounts (FSAs)

🩺 **Health Care FSA**

Use for qualified medical, dental, and vision expenses. Includes expenses for your spouse + dependents up to age 26.

Eligible Expenses Include:

- Doctor visits and co-pays
- Prescriptions
- Dental care
- Vision (glasses, contacts)
- Many over-the-counter items

Key Benefits

- Tax-free payments for eligible care
- Full annual election available at the beginning of the plan year

Important Rules

  - ❌ Cannot contribute to an HSA at the same time
  - 👉 Subject to “use-it-or-lose-it” rules (unless grace period or rollover applies)
  - 💵 Contribution limits: Check your specific plan documents

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👓 **Limited Health Care FSA**

Works like the Health FSA, but limited to:

- Dental & vision post-deductible expenses only (post-deductible expenses are medical expenses in excess of the IRS statutory limit for HSA compatible HDHPs)
  - ✅ You **can** still have an HSA with this option
  - 👉 Subject to “use-it-or-lose-it” rules (unless grace period or rollover applies)
  - 💵 Contribution limits: Check your specific plan documents

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❌ **Not Eligible (applies to either Health Care or Limited Health Care FSAs):**

- Cosmetic procedures
- Gym memberships
- Vitamins for general health
- Toiletries (toothpaste, shampoo)
- Cosmetic products

👶 Dependent Care FSA

Use for daycare expenses that allow you (and your spouse) to work.

Eligible Expenses

- Daycare and preschool
- Care for dependents under age 13
- Care for disabled dependents

Key Benefits

- Tax-free payment for care services
- Potential for significant annual savings

Contribution Limits

- Up to **$7,500/year**
- **$3,750** if married filing separately
- Cannot exceed your or your spouse's earned income

FSA vs. Tax Credit

You may qualify for a **Dependent Care Tax Credit** instead of using the Dependent Care FSA.

Important:

- You cannot use both for the same expenses
- The best option depends on your situation

👉 Consider consulting a tax advisor

Important Rules

Plan Elections

- Made during **open enrollment**
- Changes allowed only after a **qualifying life event**, such as:
  - Marriage or divorce
  - Birth or adoption
  - Employment change (you or your spouse)

Use-It-or-Lose-It

- Money not used may be forfeited under "use it or lose it" rule
- Some plans offer:
  - **Grace period** (extra 2.5 months to incur eligible expenses)
  - **Rollover** (limited carryover into subsequent plan year)

👉 Check your employer's plan for details

Separate Accounts

- Health FSAs and Dependent Care FSA funds **cannot be combined**

Social Security Consideration

- Lower taxable income may slightly reduce Social Security benefits
- For most employees, **tax savings outweigh the impact**

Planning Your Contributions

Before enrolling:

1. Estimate your annual out-of-pocket expenses
2. Be conservative to avoid unused funds
3. Divide by number of pay periods

How to Enroll

1. Estimate your expected expenses
2. Choose your contribution amount
3. Complete enrollment through your employer

Reimbursement Process

Submit a Claim With:

- Claim form
- Receipt or Explanation of Benefits (EOB)

Submission Methods:

- Online portal
- Mobile app
- Paper form

Reimbursement Timing:

- **Health FSAs:** Up to full annual election
- **Dependent Care FSA:** Based on available balance

FSA Debit Card & Substantiation Rules:

The FSA debit card provides convenient access to your funds, but IRS rules require all transactions to be substantiated to confirm eligibility. Not all employers offer a debit card under their program.

👉 Consult your employer to determine if a debit card is offered under the Health FSAs. If available, the debit card is only available under the Health FSAs. It is not available under the Dependent Care FSA.

Important Reminders

⚠️ Always save itemized receipts and Explanation of Benefits (EOBs)

⚠️ Not all transactions are automatically approved

⚠️ Documentation may be required after purchase

Auto-Substantiation

Some transactions are automatically approved when matching copays, recurring expenses, or purchases at IIAS-compliant merchants.

Manual Substantiation

If a transaction cannot be verified automatically, you must submit receipts showing date of service, provider, description, and amount.

Required Documentation

• Patient name
• Provider name
• Date of service
• Description of service
• Amount charged

Important Deadlines

Requested documentation must typically be submitted within 30 days to avoid card suspension.

Best Practices

✓ Use IIAS-approved merchants
✓ Keep a receipt folder
✓ Respond promptly to requests

Need Assistance?

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Quick Summary

- Save money using **pre-tax dollars**
- Choose between **Health FSA** and **Dependent Care FSA**
- Plan contributions carefully
- Submit claims with proper documentation