Employee FAQ: Flexible Spending Accounts

What is an FSA?
A healthcare flexible spending account (FSA) is an employer-sponsored benefit that allows you to set aside pre-tax dollars into an account to be used for eligible medical expenses.

Why should I participate in an FSA?
Contributions to the FSA are deducted from your paycheck on a pre-tax basis, reducing your taxable income. You can increase your spendable income by an average of 30% of your annual contribution with the tax savings.

How do I contribute money to my FSA?
Your annual election will be divided by the number of pay periods in your plan year. This amount will be deducted from your paycheck before taxes are assessed.

Who is eligible under an FSA?
An FSA covers eligible expenses for you and all of your dependents, even if they are not covered under your primary health plan.

What expenses are eligible for reimbursement?
Health plan co-pays, deductibles, co-insurance, eyeglasses, dental care, and certain medical supplies are covered. The IRS provides specific guidance regarding eligible expenses. (See IRS Publication 502).

How do I determine the date my expenses were incurred?
Expenses are incurred at the time the medical care was provided, not when you are invoiced or pay the bill.

How do I get the funds out of my FSA?
If you have a benefits debit card, simply swipe it at the register. Otherwise, just file a claim including the receipt documenting the type, amount and date. Once approved, your reimbursement check will be mailed or deposited into your bank account.

What happens if I don't spend all of my FSA by the end of the plan year?
Be sure to only allocate dollars for predictable medical expenses. Any unused funds at the end of the plan year are forfeited, also called the use-it-or-lose-it rule.

How soon can I start spending my FSA funds?
With a healthcare FSA, your entire annual election amount is available on the first day of the plan year even though you have not yet contributed that amount.

Can I change my election amount mid-year?
Elections can only be altered if you experience a change in status as defined by IRS regulations, such as marriage, divorce, birth, or death in your immediate family.

What happens to my FSA if my employment is terminated?
Participation in your FSA is also terminated. This means that only expenses that were incurred prior to your termination date are eligible for reimbursement.

What is the deadline for submitting claims?
You can submit claims for reimbursement at any time during the same plan year that you incur the expense. You may also have a grace period at the end of the plan year. Check the summary plan document your employer provided.

Can I still deduct healthcare expenses on my tax return?
Yes, but not the same expenses for which you have already been reimbursed from your FSA.

Are over-the-counter (OTC) medications eligible for reimbursement?
Yes. OTC medications are eligible with a doctor’s prescription. You will need to submit a claim with the receipt for the OTC medicine along with the prescription from your doctor that includes the diagnosis and course of treatment to receive reimbursement.
What is a Letter of Medical Necessity?
The IRS mandates that eligible expenses be primarily for the diagnosis, treatment or prevention of disease or for treatment of conditions affecting any functional part of the body. For example, vitamins are not typically covered because they are used for general wellness, but your doctor may prescribe a vitamin to treat your medical condition. The vitamin would then be eligible if your doctor verified the necessity in treatment.

Call 269-342-1700 ext. 213 or email us at fsa@kushnerco.com
Employee FAQ:
Dependent Care FSA

What is a dependent care FSA (DCA)?
A DCA is a flexible spending account that allows you to contribute a portion of your paycheck before taxes are taken out to pay for qualified dependent care expenses so that you can work or look for work.

Why should I participate?
Since contributions to the account are deducted from your paycheck before income taxes are assessed, your taxable income is reduced. Participants enjoy a 30% average tax savings on the total amount they contribute to the account.

How do I contribute money to my DCA?
Once you make your annual election during open enrollment, your employer will deduct this amount from your paycheck before taxes are assessed in equal amounts throughout the year.

How much can I contribute?
The IRS limits annual contributions to $5,000 on income tax returns for single or married filing jointly, and $2,500 for married filing separately.

Who qualifies as a dependent?
You can use your DCA to pay for care for children under age 13 that you claim as dependents, as well as adults or other relatives that are incapable of caring for themselves (if you provide more than 50% of their support).

What type of care is eligible?
Eligible expenses must be for the purpose of allowing you to work or look for work. Services may be provided at a child or adult care center, nursery, preschool, after-school, summer day camp, or a nanny in your home.

What type of care is not eligible?
Care expenses that are not eligible to be paid with DCA funds include care for a child over age 13, overnight camp, babysitting that is not work related, school fees for kindergarten and higher grades, and long-term care services.

Do I have access to my entire DCA election amount at the beginning of the year?
No, you will only have access to DCA funds that have already been deducted from your paycheck.

Are there any rules about who can care for my dependents?
Yes. You can not use funds to pay for care provided by a spouse, a person you list as a dependent for income tax purposes, or one of your children under the age of 19.

How do I use the funds in my account?
If you have a benefits debit card and your care provider accepts credit cards, you may pay directly from your account. Otherwise, pay out-of-pocket and then file a reimbursement claim with your expense documentation.

What happens if I don’t spend all of my DCA funds by the end of the plan year?
It is essential to estimate conservatively during elections. Any unused funds at the end of the plan year are forfeited, also called the use-it-or-lose-it rule.

Can I change my election amount mid-year?
Typically, you cannot change your contribution mid-year. However, if you experience a qualifying event, such as the birth of a new child, or if your child care provider significantly increases their rates, you may be eligible to adjust your contribution.

What happens to my account if my employment is terminated?
Participation in the plan is also terminated. This means that only expenses that were incurred prior to your termination date are eligible for reimbursement.

Can I still deduct dependent care expenses on my tax return?
Yes, but not the same expenses for which you have already been reimbursed. If your total expenses were $7,000 and you were reimbursed $5,000 from your DCA, you may only claim the $2,000 difference.

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**Employer FAQ:**  
Flexible Spending Accounts

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**What’s a FSA?**  
A flexible spending account (FSA) is a benefit you sponsor for your employees. A flexible spending account lets your employees set aside pre-tax dollars to pay for eligible expenses like healthcare and/or dependent care, depending on plan type.

**What are the different types of FSAs available?**  
Healthcare FSA  
With a healthcare FSA, your employees can pay for eligible healthcare expenses on a pre-tax basis, which reduces the amount paid for federal income tax, FICA tax and, as applicable, their state income taxes. Healthcare FSAs cover an extensive list of eligible, reimbursable expenses, as defined by IRS Code Section 213(d).

Dependent Care FSA  
Dependent care FSAs (DCAs) give your employees the ability to pay for work-related dependent care expenses with pretax dollars, which allows them to save on federal income tax, FICA tax and, as applicable, their state income taxes. DCAs may provide your employees more tax advantages than the federal income tax credit.

Limited-Purpose FSA  
If you offer an HSA-compatible high-deductible health plan paired with a health savings account (HSA), you may offer only a limited-purpose FSA to those employees that have an HSA. The limited-purpose FSA is designed to complement the HSA and may be established to pay for eligible vision and dental expenses. Medical expenses are not permitted, because the tax-favored HSA is used to fund those costs.

**Who can offer an FSA plan?**  
Most employers can offer an FSA, with a few exceptions. You may want to check with your legal or tax advisor regarding your specific situation.

**Who may contribute to an FSA?**  
Employees contribute to their own FSA through pre-tax salary deduction. You can also contribute money to your employees’ FSAs.

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**Can an FSA be offered with any health plan?**  
Yes. An FSA plan can be offered alongside any medical or dental plan. However, according to IRS regulations, if employees contribute to an HSA, they can only enroll in a limited-purpose FSA.

**What regulations should I be aware of?**  
Healthcare FSAs are governed by Internal Revenue Code Section 125 when offered through a cafeteria plan. If the healthcare FSA isn't offered through a cafeteria plan it’s subject to Internal Revenue Code Section 105. Usually they’re subject to ERISA, COBRA and HIPAA laws.

**Can I offer my employees a grace period option?**  
Yes. The grace period allows employees up to two months and fifteen days beyond the end of the plan year to use their contributed funds. This lets employees incur and submit reimbursement requests using the previous year’s FSA balance. In the case of a calendar year plan, the grace period may extend to March 15 of the following year. Expenses from January 1 through March 15 can be reimbursed from the previous year’s FSA.

**How does the grace period affect employees’ ability to contribute to an HSA?**  
An employee who’s enrolled in a healthcare FSA with a grace period can contribute to an HSA if there’s no money left in the FSA at the end of the plan year or they’ve reached the end of the grace period.

**Can owners or partners participate in an FSA?**  
No. According to IRS guidelines, anyone with two percent or more ownership in a schedule S corporation, LLC, LLP, PC, sole proprietorship, or partnership may not participate. C-corporation owners and their families are eligible to participate in FSA plans because they are considered to be W-2 common law employees.
Do non-discrimination rules apply?
Yes. Based on requirements set by the Internal Revenue Service (IRS) Section 125 Cafeteria, flexible spending accounts cannot discriminate in favor of highly compensated or key employees. To ensure that employers are in compliance with these rules, non-discrimination testing is required annually.

Is a domestic partner covered under an FSA?
Medical expenses of a domestic partner who is a tax dependent of the employee are eligible for tax-free reimbursement from the employee's health FSA. Medical expenses for a domestic partner who is not the employee's tax dependent are not eligible for tax-free reimbursement from the employee's health FSA, even if the employer offers domestic partner health insurance benefits.

What options does an employer have with unused FSA funds?
Employers can either use leftover funds to apply to administrative costs incurred during the plan year or give it back to employees by crediting it to employees' FSAs in the next plan year. The latter option can occur only if the funds are allocated on a uniform and reasonable basis to all of the FSA plan participants.

Is the employer taxed on unused funds that are forfeited from an employee's FSA?
No, the employer is not taxed on unused funds.

Can an employer charge an employee for the balance of a healthcare FSA if the employee leaves employment mid-year?
No. The Uniform Coverage Rule does not allow employers to charge an employee for the balance of an FSA if he or she terminates mid-year. The rule indicates that the maximum amount of reimbursement from a healthcare FSA must be available at all times during the coverage period. The uniform coverage rules prohibit an employer from designing a plan that ties the maximum amount of reimbursement at any particular time to the amount the employee has contributed. Similarly, the employee contribution payment schedule for the required amount for coverage under a healthcare FSA may not be based on the rate or amount of covered claims incurred during the coverage period. Employee salary reduction payments must not be accelerated based on the employee’s incurred claims and reimbursements.

How can employers limit risk of loss associated with early terminations?
Employers assume a level of risk similar to that the employee takes under the use-it-or-lose-it rule. Potential forfeitures offset the risk of early termination losses for many employers. Flexible plan design options allow you to limit your risk.

For more information, call 269-342-1700