Flexible Spending Account (FSA) Explanation

Flexible Spending Account (FSA) Limits for 2024 and 2025			
Year	Contribution Limit	Catch-Up Contribution (Age 55+)	Rollover Limit
2024	$3,200	$0 (No catch-up for FSA)	$640 (maximum)
2025	$3,300	$0 (No catch-up for FSA)	$660 (maximum)

A **Flexible Spending Account (FSA)** is a tax-advantaged account offered by employers that allows employees to set aside pre-tax money for eligible out-of-pocket health care expenses. FSAs can help reduce taxable income, providing significant savings on health-related costs such as medical bills, prescriptions, dental, and vision care.

Key Features of an FSA

1. **Eligibility Requirements**
   - FSAs are employer-sponsored, meaning your employer must offer them as a benefit.
   - Unlike HSAs, there is no requirement for an HDHP to qualify for an FSA. Any employee can participate if their employer offers this benefit.
2. **Contribution Limits** the IRS sets annual contribution limits for FSAs. For 2024, the contribution limit for health care FSAs is:
3.
   - **Health Care FSA**: $3,200 per year (per employee).
   - **Dependent Care FSA**: $5,000 per year (per household).

   Employers can set a lower contribution limit, but the IRS establishes the maximum amount.

4. **Tax Benefits**
   - **Pre-tax Contributions**: Money contributed to the FSA is deducted from your paycheck before taxes, reducing your taxable income for the year.
   - **Tax-free Withdrawals**: You can use FSA funds for eligible medical, dental, and vision expenses without being taxed when you withdraw the money.
5. **Qualified Medical Expenses** FSA funds can be used for a wide range of medical expenses, such as:
   - Doctor visits, prescription medications, copayments, and deductibles.
   - Dental expenses, including cleaning, braces, and fillings.
   - Vision care, including eye exams, glasses, and contact lenses.
   - Over-the-counter medications (with a prescription).

   Non-qualified Expenses: If you use FSA funds for non-qualified expenses, the withdrawals are subject to income tax and a 20% penalty.

6. **“Use-it-or-lose-it” Rule** One key limitation of FSAs is that they operate under the **use-it-or-lose-it rule**. This means you must use the funds by the end of the plan year, or you will lose any remaining balance (though some employers may offer a grace period or carryover options). This is different from an HSA, where funds roll over year to year.
   - **Grace Period**: Some employers provide an additional 2.5 months after the end of the year to spend the funds.

    - **Carryover Option**: Some employers may allow you to carry over up to $610 into the next plan year.
7. **Portability** FSAs are **not portable**. If you change jobs or your employment ends, you forfeit any unused FSA funds unless you qualify for continuation under COBRA (the Consolidated Omnibus Budget Reconciliation Act). Unlike an HSA, which stays with you, the FSA is tied to your employer.
8. **Dependent Care FSA** In addition to the health care FSA, there is also a **Dependent Care FSA** that allows you to set aside money for qualifying child or dependent care expenses, such as daycare, summer camps, or elder care. The contribution limit for a Dependent Care FSA is $5,000 for a household (or $2,500 if married and filing separately).
9. **Access to Funds** Typically, **all the funds in the FSA are available at the start of the year**, meaning you can use the full annual contribution amount right away, even if you haven't contributed the full amount through payroll deductions yet.

Advantages of an FSA

- **Tax Savings**: Contributions are made with pre-tax dollars, reducing your taxable income and saving you money.
- **Immediate Access to Funds**: The full annual contribution is available at the beginning of the year, which is beneficial for people with large medical expenses.
- **Wide Range of Eligible Expenses**: FSAs can cover a variety of medical, dental, and vision expenses, along with some over-the-counter treatments.

Disadvantages of an FSA

- **Use-it-or-lose-it**: Any unused funds at the end of the year are forfeited, unless your employer offers a grace period or carryover option.
- **Not Portable**: If you leave your employer, you lose any unused FSA funds unless you are eligible for COBRA continuation.
- **Contribution Limits**: The contribution limit may not be sufficient for individuals with high medical costs.