



Fact sheet:

Flexible Spending Accounts (FSAs)

Q: What is an FSA and how does it work?

A: A Flexible Spending Account (FSAs) is an employer-sponsored spending account that allows employees to set aside pretax earnings to pay for eligible health care or dependent care expenses. Pretax funds are deducted from each paycheck and automatically deposited into an FSA account. Employees decide how much to contribute, tax-free, for the year.

Q: What expenses are eligible?

A: Any out-of-pocket and unreimbursed medical expenses allowed under section 213(d) of the Internal Revenue Code, except health insurance premiums and long-term care services. FSAs can also be used for day care or other dependent care expenses required to allow an individual to work. A complete list can be found on the [Learning Center](#).

Q: How is an FSA funded?

A: Employees make pretax contributions through automatic payroll deductions. Employers can also decide to contribute, up to a maximum amount.

Q: What are the benefits to employees?

A: Pretax contributions lower taxable income, and reimbursements are made tax-free from the employee's account. In addition, an employee has access to the entire elected amount on the first day of the plan year.

Q: How do employers save money?

A: FSA programs can lower employers' FICA taxes on employee payroll and possibly what is paid for other benefits plans, such as workers' compensation and disability, that are based on employees' taxable income.

Q: What types of FSAs are available?

A: There are two types of FSAs employers can offer to employees. Employees can participate in one or both.

- **Medical FSA** — This type of FSA allows employees to pay for eligible expenses that are not covered by the health plan, such as deductibles, coinsurance, dental care, orthodontia and vision care. The total amount the employee chooses to contribute is available to them on the first day of the plan year, even if they have not actually contributed that much yet.
- **Dependent Care FSA** — This type of FSA allows employees to pay for day care expenses for their children under age 13 or for older dependents not capable of self-care needed to allow an employee to work. With a dependent care FSA, the money must be in the employee's account before you can request reimbursement.



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Medical FSA	Dependent Care FSA
Covers medical costs, orthodontic care, dental, and vision.	Covers daycare for children under age 13 and other dependents not capable of self-care.
Employee contribution maximum: \$2,750	Employee contribution maximum: \$5,000

Q: What is the main difference between an FSA and an HSA?

A: With both a health savings account (HSA) and an FSA, account holders make tax-deductible contributions. HSAs are individually owned while FSAs are part of the employer's cafeteria plan. Employers, family members and any other individuals can contribute to an HSA account. An FSA must be funded exclusively through employer contributions or employee pre-tax contributions. HSA balances continue forward until spent and an employee can take the account with them should they leave the company or retire. With an FSA, funds remaining at the end of the plan year are forfeited to the employer.

Q: Is a debit card available?

A: Yes. A Visa® Debit Card is available for eligible medical expenses, and can be used at the point of purchase or after care.¹

Q: What happens to funds at the end of the year?

A: Unused money in an FSA account is handled in one of three ways based on the plan design:

- Forfeited at the end of the plan year
- Rollover of up to \$550 of the balance to the next plan year. Remaining balances are then forfeited.
- Grace Period allows expenses in the first few months of a new plan year to be paid with old plan year funds. Remaining balances are then forfeited.

¹The Blue Cross and Blue Shield of Vermont Visa Debit Card is issued by The Bancorp Bank, pursuant to a license from Visa U.S.A. Inc. and can be used for qualified expenses wherever Visa debit cards are accepted.

Depending on an employee's tax bracket, an employee can save nearly 30 percent on most medical, health and child or elder care expenses. An employee earning \$30,000 with a \$2,000 FSA contribution can save an estimated \$300 in taxes.

Learn more. Talk to a health care spending administration expert.

Your Blue Cross and Blue Shield of Vermont sales representative can provide you with more information.

Need help?

Call Blue Cross and Blue Shield of Vermont at **1-866-999-2605**.

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