



MASSACHUSETTS



FSAs: A SIMPLE WAY TO SAVE

What Is a Flexible Spending Account (FSA)?

A flexible spending account (FSA) is a benefits program your employer may offer that can help you save—sometimes significantly—on what you pay for medical, dental, vision, child, and/or elder care as well as on taxes. It's sometimes called a cafeteria plan or health care or dependent-care reimbursement account.

If your employer offers an FSA, during open enrollment, you indicate how much of your pre-tax income to put in (up to the amount allowed by your plan). You then get that money back—without paying taxes on it—to pay for, or be reimbursed for, qualified expenses.

Your Employer May Offer Different Types of FSAs

- ▶ A health care FSA for qualified medical, dental, vision, or other health care costs, including insurance deductibles, co-payments, and coinsurance
- ▶ A dependent-care FSA for child, elder, or other dependent care
- ▶ A limited-purpose FSA (LPFSA) for dental and vision expenses
(This is an FSA usually for those with a health savings account [HSA].)

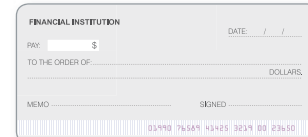
Why Should I Choose an FSA?

An FSA Lets You Save Hundreds—Even Thousands—by Using More of Your Own Money and Saving on Taxes

An FSA is a great way to save all around. If you or your family have \$1,000 in out-of-pocket medical expenses, \$500 in vision expenses, and \$500 in dental expenses and pay with, or get reimbursed from, your FSA, you could save \$800 in taxes, assuming a 40% combined federal and state tax rate. If you also use your FSA for \$5,000 in day care expenses, you could save another \$2,000. That's up to \$2,800 in total tax savings, assuming a total of \$7,000 in expenses—and more money you're taking home each paycheck—just by deciding to put funds in your FSA.*

Your tax savings can add up to 40% or more of every dollar you earn, including federal and most state income taxes, Social Security, and Medicare taxes. And, because you're not paying taxes on that money, you get more of your own money to actually use.

Paycheck



Tax-Free Contributions



FSA

Pay Bills Tax-Free



Doctor's Bill



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Is an FSA Right for Me?

If you're interested in using your money for yourself instead of spending it on taxes, you have access to an FSA benefits option, and can participate, take advantage of an FSA.

Which FSA Is Right for Me?

- ▶ A health care FSA is right for you if you or your family have fairly predictable out-of-pocket medical, dental, or vision expenses.
- ▶ A dependent-care FSA is right for you (and your spouse, if married) if you regularly pay for day care, pre-school, or other child, elder, or other dependent care.
- ▶ A limited-purpose FSA is right for you if you have health savings account (HSA)-compatible insurance, make the maximum allowable contribution to your HSA, and want additional pre-tax savings to use for dental or vision expenses beyond your deductible.

Your employer may offer both a dependent-care FSA and a health care FSA or limited-purpose FSA, but your employer can't offer both a health care and limited-purpose FSA.



Would You Rather Use Your Money or Spend It on Taxes?

HEALTH CARE FSA		
	Eligible Expenses	Sample Estimate
Estimated annual expenses	Annual dental plan deductible	\$100
	Dental fillings and crowns	\$150
	Orthodontics (braces)	\$1,500
	Annual health plan deductible	\$300
	Chiropractor visits	
	Counselor or therapist visits	
	Doctor's office visits	\$60
	Contact lenses and solutions	\$30
	Corrective eye surgery	
	Prescription sunglasses/glasses	
Estimated election amount*	Estimated Expense Total:	\$2,140
Taxes (40%)		x 0.40
Savings estimate*		\$856

Who Can Open an FSA?

Typically anyone whose employer offers an FSA can participate, including employees not covered under the employer's health plan. Your employer may exclude certain types of employees, such as part-time, seasonal, or temporary. Check your benefits guide or with your human resources department to be sure you're eligible.

Self-employed individuals can't open an FSA.



How Does an FSA Work?

1. During your employer's open enrollment (at the beginning of the plan year), you decide how much you want to contribute for the year—up to the plan's maximum. (Annual maximum contributions for dependent-care FSAs are set by the IRS; currently equal to your earned income [or your spouse's, if you earn more] up to \$5,000 per family or \$2,500 for a married person filing separately. In 2013, the IRS will also cap annual health care FSA contributions at \$2,500.)
2. Your employer or payroll administrator sets aside the amount you choose to put in an FSA—usually as equal portions from each paycheck.
3. When you have a qualified expense, you can either use a debit card provided by some plans and pay for expenses at the time you have them or submit expenses for reimbursement later. Save all receipts, you'll need them for reimbursements and possibly to prove to your employer or administrator that your expenses were qualified.

FSAs are primarily restricted to the plan year. There's typically a run-out period between the end of the plan year and the last day you can submit a reimbursement for the previous year. Some plans offer a grace period that allows you to both continue incurring expenses *and* submitting reimbursements after the end of the plan year for a time. After that, any unused balance for the previous plan year goes back to your employer.

If you have a dependent-care FSA, be sure to file *IRS Form 2441—Child and Dependent Care Expenses*—with your personal income tax return.

Whose Medical Expenses Can I Pay for Out of My FSA?

Yours, Your Spouse's, and Your Dependents'

In addition to your own medical expenses, you can use your FSA to pay the medical expenses of your spouse and any family member claimed as a dependent on your tax return, even if they aren't covered by your health plan.

Domestic Partner

If your domestic partner meets the IRS qualifications to be considered a tax dependent, you can use your FSA for his or her eligible medical expenses.



What Kinds of Expenses Can I Use My FSA For?

You can use FSA funds to pay for qualified medical and dependent-care expenses as defined by the IRS.

Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness. This doesn't include items merely beneficial to general health, such as a vacation or vitamins and supplements (unless accompanied by a doctor's note stating they are a medical necessity).

Qualified Medical Expenses Include[†]:

Note: Qualified medical expenses for a limited FSA are restricted to qualified out-of-pocket costs for dental and vision care. Other expenses normally eligible under a standard FSA aren't eligible under a limited FSA.

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| <ul style="list-style-type: none"> • Acupuncture • Alcoholism (rehab, transportation for medically advised attendance at AA) • Ambulance • Amounts covered under another health plan • Annual physical examination • Artificial limbs/teeth | <ul style="list-style-type: none"> • Birth control pills • Body scans • Breast reconstruction surgery • Chiropractor • Contact lenses • Crutches • Dental treatments • Eyeglasses/eye surgery • Hearing aids | <ul style="list-style-type: none"> • Home care • Long-term care expenses • Medicines (prescribed, not imported from other countries) • Nursing home • Nursing services • Optometrist • Oxygen • Smoking cessation programs | <ul style="list-style-type: none"> • Surgery • Telephone equipment and repair for hearing impaired • Therapy • Transplants • Weight loss program (if prescribed by a physician for a specific disease) • Wheelchairs • Wigs |
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Non-Qualified Medical Expenses Include[‡]:

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| <ul style="list-style-type: none"> • Babysitting, child care, and nursing services for a normal, healthy baby • Dancing lessons • Diaper service • Elective cosmetic surgery | <ul style="list-style-type: none"> • Electrolysis or hair removal • Funeral expenses • Future medical care • Hair transplants • Health club dues | <ul style="list-style-type: none"> • Insurance premiums other than those explicitly included • Medicines and drugs from other countries • Non-prescription drugs and medicines | <ul style="list-style-type: none"> • Nutritional supplements, unless recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician • Teeth whitening |
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Qualified Dependent-Care Expenses Include[†]:

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| <ul style="list-style-type: none"> • Babysitting • Day camp where the primary purpose is custodial care • Dependent care for a child under 13 | <ul style="list-style-type: none"> • Expenses necessary for you or your spouse to work, look for work, or attend school full-time • FICA/FUTA taxes of day care provider | <ul style="list-style-type: none"> • Overnight care when one caregiver is working and the other sleeping • Late pick-up fees • Nanny expenses | <ul style="list-style-type: none"> • Nursery or pre-school • Registration fees • Elder care |
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Non-Qualified Dependent-Care Expenses Include[‡]:

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| <ul style="list-style-type: none"> • Activity fees/supplies • Disabled dependent living outside of employee's household | <ul style="list-style-type: none"> • Field trips • Food • Kindergarten | <ul style="list-style-type: none"> • Late fees • Overnight camp • Placement fees | <ul style="list-style-type: none"> • Transportation • Fees paid to provider not reporting the income to the IRS |
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[†]Example assumes a total allowable FSA contribution of \$7,000. Individual employers allowable contributions may vary.

[‡]See the complete list in *IRS Publication 502—Medical and Dental Expenses*.

[‡]See the complete list in *IRS Publication 503—Child and Dependent Care Expenses*.