

## General

### *What is a Flexible Spending Account (FSA)?*

A Flexible Spending Account (FSA) provides a tax-advantaged way to pay for eligible out-of-pocket healthcare expenses and work-related dependent day care expenses. Authorized by Internal Revenue Code Section 125, an FSA allows you to pay for eligible expenses with “pre-tax” dollars, thereby lowering your taxable income. Employers have the option of offering a healthcare spending account, a dependent day care account or both.

A healthcare spending account allows you to set aside money on a pre-tax basis to pay for qualifying out-of-pocket health care, dental, vision or hearing expenses. Out-of-pocket expenses are those that are not covered by your existing insurance plans. These expenses include deductibles, coinsurance and co-pays and certain over-the-counter (OTC) expenses.

A dependent day care spending account allows you to set aside money on a pre-tax basis to pay for child or adult day care expenses so that you and , if married, your spouse can work. These expenses include day care, before-and-after school programs, nursery school or preschool, summer day camp and even adult day care.

### *What is the main advantage of enrolling in an FSA?*

The main advantage of an FSA is that you do not pay federal income taxes or social security taxes on the amount you elect to contribute to your FSA. In most states, you don't pay state taxes on your contribution either. By participating in an FSA, you lower your taxable income and therefore decrease the amount of taxes you pay.

### *How does an FSA work?*

To begin, you decide if you want to participate in a healthcare and/or dependent day care account. Then, you would:

- Estimate the amount you will spend on out-of-pocket health expenses and/or dependent care expenses during the plan year.
- Decide how much you wish to set aside into your Healthcare account and/or your Dependent Day Care account. (Be conservative, review your prior year's expenses and plan only for predictable costs).

The amount(s) you wish to set aside is deducted from your paycheck (on a pre-tax basis) in equal amounts each pay period. As you incur healthcare and/or dependent day care expenses throughout the year, you can access your funds by submitting an online claim for eligible expenses and get reimbursement for your out-of-pocket expenses.

***If I elect to participate in the healthcare and/or dependent day care account, how long will my election be in effect?***

Your election will be in effect until the end of the plan year. You must re-enroll each year if you want to continue participating. You may only start, stop, or change your contribution amount during the plan year if you have a qualifying event in your family situation, such as marriage, divorce or the birth of a child.

***Can I change my election during the plan year?***

Since these plans are governed by the IRS, there are specific rules you need to be aware of. The IRS requires that you make your election decision before the new plan year begins each year, or before your effective date if you are newly eligible. The election decision remains in effect for the plan year, unless you have a Qualifying Life Event or status change, such as a marriage, birth, death of a dependent, etc. (Please see your employer plan provisions).

***How do I get reimbursed?***

As you incur healthcare and/or dependent day care expenses throughout the year, you can access your funds by submitting a claim online using PeopleSoft to get reimbursed for your out-of-pocket expenses.

***What happens to the funds left in my account at the end of the plan year?***

Any funds left in your account at the end of the year are forfeited. However, you may file claims from the previous year, with dates of service January 1 through December 31, through the end of the first quarter of the New Year, i.e. March 31. You can avoid forfeitures if you plan carefully by reviewing your prior year's out-of-pocket expenses to estimate what you will spend in the next year, and also make sure to be conservative and plan only for predictable expenses.

***How much money can I expect to save in taxes with an FSA?***

You can save on federal taxes, social security taxes as well as state income taxes in most states. Generally, federal taxes range from 15% to 28% and social security taxes equate to 7.65%. Adding these amounts to your state tax will generally bring your tax savings to approximately 30% on the money you elect to contribute to your FSA.

***Does enrollment in an FSA affect my other benefits?***

Typically, it does not affect your other benefits since most employer sponsored benefits, such as life insurance or disability income, are based on your gross salary prior to any salary reductions. However, you are saving on social security taxes so your social security retirement may be minimally impacted.

***Do I have to be enrolled in VSU's medical or dental plan in order to participate in an FSA?***

Enrollment in other group plan(s) is not required in order to participate in an FSA.

