FLEXIBLE SPENDING ACCOUNT

What you need to know about FSAs

#1 Contributions are tax-free.

Flexible spending accounts, or FSAs, are special savings accounts offered through some employer benefit plans. They allow the account holder to pay for certain out-of-pocket medical and dependent care costs with tax-free money. Because you make contributions via pre-tax payroll deductions, you don't pay taxes on the money you put into your account.

#2 Your entire annual balance is available on day one.

Let's say you elect to contribute $1,500 for the plan year. In most cases, your employer will deduct $1,500 from your paychecks, usually in equal increments, over the course of the year.

So, if you receive 26 paychecks in a year, you can expect $57.69 deducted from each paycheck.

Here's the cool thing. The entire $1,500 will be available on the first day of the new plan year. There's no need to wait for your payroll contributions to accrue a balance. That means you sort of get an advance from your employer to help cover eligible medical expenses.

#3 An FSA lets you pay for more than you think.

Many know they can use their healthcare FSA to pay for doctor visits and deductibles. But there are thousands of other products and services that are eligible as well.

For example, healthcare FSA-eligible expenses include over-the-counter (OTC) medications, like pain relievers and cough syrup. So, next time you're at the corner drugstore, be sure to bring your FSA debit card. However, FSA rules cap the amount of money that can be placed in the account each year and also dictate which types of expenses qualify for an FSA distribution.

In addition, your FSA can pay for eligible dental and vision expenses too. It's a great perk to be able to save when you need to buy contacts or get a filling. Literally thousands of products are eligible.

#4 You can pay for eligible expenses directly, or get reimbursed later.

Your FSA will come with a debit card that you can use at the doctor's office or drugstore to pay for eligible medical expenses. But if you forget your card, you'll still be able to get reimbursed.

Simply save your receipt, then upload a copy and submit it for reimbursement later.

FSA claims always require the same 5 items, but not all receipts list them! For the fastest reimbursement, make sure your documentation contains the following:

- Patient Name
- Provider Name
- Date of Service
- Type of Service
- Cost

Whether you use a debit card or upload a receipt, either option makes it easy to use and spend your healthcare Flexible Spending Account.

#5 FSAs let you pay for your spouse and eligible dependents too.

You FSA isn't only for you! You can help your whole family save next year. You can use funds in your FSA to pay for certain medical and dental expenses for you, your spouse if you're married, and your dependents. You can spend FSA funds to pay deductibles and copayments, but not for insurance premiums, You can spend FSA funds on prescription medications, as well as over-the-counter medicines with a doctor's prescription. Reimbursements for insulin are allowed without a prescription. FSAs may also be used to cover the costs of medical equipment like crutches, supplies like bandages, and diagnostic devices like blood sugar test kits.

Get a list of generally permitted medical and dental expenses from the IRS.

#6 FSAs are 'use it or lose it' accounts.

In 2026, account holders may contribute up to a maximum of $3,400 per year to their FSAs. Employers may also place limits on the amount an employee can elect to be contributed, up to this federal cap.

Another rule is the fact that generally speaking, unused FSA funds are forfeited. In other words, FSAs are "use it or lose it" accounts; the money that isn't used for qualified expenses by the end of the plan year can't be rolled over into the next. However, the carry-over option allows account holders to roll over up to a certain amount each year.

Thus, account holders may want to be cautious to avoid over-contributing to the plan and carefully estimate how much they think they'll need to spend on out-of-pocket health expenses. Setting up a budget may help with this.

Because healthcare Flexible Spending Accounts are employer-sponsored accounts, unused funds are eventually returned to your employer. It's important to carefully plan your annual healthcare spending to avoid potentially losing your hard-earned money. Be sure to review the latest contribution limits before making your elections.

#7 Carryover Provision.

The carry-over option allows account holders to roll over up to $680 to 2027 of unused funds into the account for use the next plan year. Carryover doesn't affect the maximum allowable contribution for the next year's plan.