Redwood Health Services

FSA Frequently Asked Questions

This Summary Plan Description answers basic questions about flexible spending accounts.

What is a flexible spending account?

A flexible spending account (FSA) is a pre-tax account set up by an employer to reimburse employees for certain expenses. The employer must establish a Code Section 125 “cafeteria” plan before offering FSA accounts to employees.

What are the main types of FSAs?

There are two main types of FSAs:

- Health FSAs reimburse employees for qualified medical expenses.
- Dependent Care FSAs reimburse employees’ qualified day-care costs for qualified dependent children or disabled adults.

Who funds FSA accounts?

FSA accounts can be funded by an employer, by employees, or by both.

How does an employer fund FSA accounts?

An employer funds FSA accounts by making “nonelective employer contributions.” The amounts contributed by an employer can only be used to reimburse employees for qualified FSA expenses.

How do employees fund FSA accounts?

Employees fund FSA accounts by redirecting a portion of their salary to the FSA on a pre-tax basis. The money that employees contribute to the FSA is not subject to state or federal income taxes or to employment taxes.

Can employees save money by using an FSA?

Yes. Employees who redirect a portion of their salary to an FSA can save money because they don’t have to pay income or employment taxes on the portion of their salary used for qualified medical or dependent care expenses.

How do employees enroll in an FSA?

Employees enroll in a Health and/or Dependent Care FSA by completing an FSA Enrollment Form. The form specifies whether the FSA will be funded by the employer, the employee, or both. The form also specifies how much money will be contributed to the FSA during the course of a year. This contribution is called an Annual Election. For example, if the employer or employee contributes $100 a month to an FSA, the Annual Election will be $1,200.

How much can be contributed to a Health FSA?

The maximum amount that can be contributed to a Health FSA is up to $2,600 per calendar year (as determined by the employer) for 2017.

How much can be contributed to a Dependent Care FSA?

The maximum amount that can be contributed to a Dependent Care FSA is generally $5,000 per year (or $2,500 if the employee is married and files a separate federal income tax return). However, an employee cannot contribute more than his or her spouse's earned income for the year. Further, if the spouse is a full-time student or is disabled, the contribution is limited to $250 per month for one eligible dependent and $500 per month for two or more eligible dependents.

How much has to be contributed to an FSA before employees can be reimbursed for qualified expenses?

Health and Dependent Care FSAs have different reimbursement schedules. Health FSAs are prefunded and employees can access the entire FSA amount as soon as the Annual Election has been determined and the election year has started. With Dependent Care FSAs, employees can only access funds that have already been contributed to the FSA by the employee's payroll deductions.

How do employees get reimbursed for qualified medical or dependent care expenses?

The reimbursement method is determined by the employer. For example, an employee may be issued a debit card that can be used by the subscriber at the time of service. Another method is for the employee to submit a Reimbursement Form to the employer or third party administrator, along with proper documentation, such as an Explanation of Benefits from the company health plan or an itemized receipt from a dependent care provider.

What expenses does a Health FSA reimburse?

Expenses reimbursed by a Health FSA are determined by the employer. The specific types of reimbursements allowed by the employer are listed in the employee's Summary of Benefits and in the employer's FSA plan document. In general, a Health FSA reimburses employees for medical expenses not covered by their company health plan, such as deductibles and coinsurance. On the other hand, a Health FSA cannot be used to reimburse employees for health plan premiums.

Who can be covered by a Health FSA?

A Health FSA can cover the employee and eligible dependents, such as the employee's spouse and/or children.

What expenses does a Dependent Care FSA reimburse?

A Dependent Care FSA reimburses the costs of providing day care for dependent children younger than 13 or for disabled adults who live with the employee. For example, an employee can be reimbursed for paying a day-care center or day camp to take care of the employee's children or disabled parents while the employee (and spouse, if any) is at work.

What expenses are NOT reimbursed by a Dependent Care FSA?

A Dependent Care FSA will not reimburse employees for the costs of kindergarten, overnight camps, or long-term care facilities. Employees also cannot be reimbursed for dependent care expenses for a child 13 or older, unless the child is disabled. Further, employees cannot be reimbursed for dependent care provided by certain disqualified family members who are younger than 19, or by any other person that employees can claim as a tax dependent.

How does marriage affect a Dependent Care FSA?

If an employee is married, both the employee and spouse must earn income in order to qualify for a Dependent Care FSA, unless the spouse is disabled or a full-time student for at least five months of the year. If both the employee and spouse have separate Dependent Care FSAs, any reimbursements in excess of the $5,000 federal limit are taxed.

When do employees become eligible for an FSA?

Eligibility for an FSA is determined by the employer.

What happens if FSA reimbursements are less than contributions?

If the FSA is funded by the employer, any amounts left in the FSA at the end of the plan year are retained by the employer. If the FSA is funded by the employee, the employee has until March 31 of the year following the plan year to file a reimbursement request for expenses incurred during the plan year.

What happens to an FSA when an employee stops working for an employer?

In general, an employee's participation in an FSA ends on the last date of employment. They can request reimbursement for services received on or before their termination date up to 90 days after their termination date.

However, if the employee has funds remaining in an FSA account and establishes COBRA coverage, the employee can continue contributions to participate in the FSA through COBRA. Employees can receive information about COBRA from their Human Resources department.

After an employee's FSA participation has ended, what services can be reimbursed?

The employee can still get reimbursed for any medical or dependent care services received before the employee's FSA participation ended, provided the employee has funds remaining in the FSA account. The employee cannot get reimbursed for health or dependent care services received after the employee's FSA participation ends.

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