Fact sheet:

Flexible Spending Accounts (FSAs)

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

A: An FSA is an employer-sponsored spending account that allows employees to set aside pretax earnings to pay for qualified healthcare and/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 daycare or other dependent care expenses required to allow an individual to work. For a full list of qualified medical expenses, review *Publication 502* at irs.gov. Review *Publication 503* for eligible dependent care expenses.

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.

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 qualified 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 daycare expenses for their children up to age 14 (if your plan allows) 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 requesting reimbursement[1].

Q: Are HSA account holders eligible for a medical FSA?

A: Yes. When we see that one of your employees has both an HSA and a medical FSA in the same plan year, we will automatically flag that FSA as limited. This means that the employee can only submit dental and vision expenses until they provide verification they have met the deductible on their qualified high deductible health plan (QHDHP). Once the request to remove the limitation is processed, the employee can use the medical FSA for all qualified medical expenses for the rest of the plan year. If an employee needs to have a limited FSA due to an HSA with a different administrator, just notify us to flag the employee's FSA as limited.

[1] Reimbursement of qualifying expenses may be permitted for children up to age 14 if the child either: Turned 14 in 2020 (for calendar year FSAs), or will turn 14 in 2021, to the extent the employee has unused/carried over 2020 funds.

Capital

Medical FSA	Dependent Care FSA
Covers medical costs, orthodontic care, dental, and vision.	Covers daycare for children up to age 14 (if your plan allows) and other dependents not capable of self-care.
2021 Employee contribution maximum: **$2,750**	Employee contribution maximum: **$5,000**[2]

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

A: With both an HSA and 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 pretax 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 might be forfeited to the employer, based on your plan.

Q: Is a debit card available?

A: Yes. A Capital Blue Cross VISA® debit card[3] is available for qualified medical expenses, and can be used at the point of purchase or after care.

Q: Do reimbursement requests need to be substantiated?

A: With the debit card, except in limited circumstances, expenses will not require substantiation. When needed, Capital Blue Cross will contact the employee to request a receipt for a specific expense. All dependent care reimbursement requests require receipts.

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[4]:

- Forfeited at the end of the plan year.
- Balance rolled over to the next plan year. Remaining balances are then forfeited.
- Grace period allows expenses to be paid with old plan year funds for up to 12 months after the plan year ends. Remaining balances are then forfeited.

Flexible Spending Accounts

Capital

To learn more, contact your Capital Blue Cross account executive or call 855.363.2583.

CapitalBlueCross.com

[2]For 2021 only, $10,500 for singles or married couples filing jointly; $5,250 for married couples filing separately.

[3]The Capital Blue Cross 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 within the United States.

[4]Due to the COVID Relief legislation passed December 2020, some employers may offer a temporary extension on FSA carryover or grace period.

PSI-26 (05/26/21)