Save Money on Healthcare Costs with a Flexible Spending Account

Healthcare costs and other dependant care expenditures can really add up, so many workers choose to open a flexible spending account to ease the financial burden. There’s a wide range of flexible spending account eligible expenses that workers are able to pay for with these funds.

“A flexible spending account is actually two different accounts available to assist employees with out-of-pocket healthcare and dependent daycare expenses,” says Jody Dietel, chief compliance officer at WageWorks. “In the case of the healthcare account, it also helps with budgeting as the entire amount you elect is available from the first day of the plan year.”

Participants put their pre-tax earnings aside in a flexible spending account, which reduces their taxable income, explains Ethan Slavin, a communications business partner at Aetna.

“If a participant regularly spends money for their own medical expenses or daycare expenses, participating in a flexible spending account saves them money by reducing their taxable income,” Slavin says.

Flexible Spending Account Eligible Expenses

Dietel says that any out-of-pocket healthcare costs can generally be reimbursed with funds from a flexible spending healthcare account.

“These include co-pays, prescription payments, deductibles, dental, vision, chiropractic expenses and most over-the-counter items, such as Band-Aids,” Dietel says. “Over-the-counter drugs and medicines require a physician’s prescription in order to be reimbursed. For the Dependent Daycare account, expenses incurred for the care of your eligible children under the age of 13 or another dependent who resides with you and is incapable of self care would be eligible as long as the expenses are incurred to enable you (or you and your spouse, if you are married) to work.”

Slavin says some of the expenses that are most commonly used by flexible spending account participants include glasses, contact lenses, Lasik surgery, and coinsurance.

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Carol Maxwell, a clinical coordinator and Nursing instructor at South University — Virginia Beach, says there are many flexible spending account eligible expenses that participants might not expect.

“An exciting benefit is that your FSA account will pay for some treatments such as acupuncture and chiropractic services,” Maxwell says. “You may also use this money for non-elective plastic surgery, braces, or dentures.

Save Money with Your Flexible Spending Account

“To use your FSA wisely you should look at your average out-of-pocket spending on covered expenses for the year,” Maxwell says. “You can then elect to have that amount taken out of your paycheck averaged over a 12-month or 26-week period.”

Dietel says that people can save up to 40% by using a flexible spending account, depending on their household marginal tax rate.

Slavin says the way in which employees are reimbursed for flexible spending account eligible expenses varies according to each employer.
"Participants can be reimbursed by submitting a manual claim form, using an FSA debit card, which employers have the option to offer, or via an automated method if there are interfaces established between medical systems and the FSA administration system," Slavin says.

Maxwell advises that it is important to keep all of your receipts, because sometimes a flexible spending account sponsor will request a receipt.

Is a Flexible Spending Account Right for Everyone?

Maxwell says that flexible spending accounts make sense for anyone who incurs out-of-pocket expenses for healthcare costs.

"It is important to make sure you really look at how much you typically spend on these costs because an FSA is a ‘use it or lose it’ type of plan," Maxwell says. "You have to use up all the money in this account in the healthcare year or the grace period, if you are offered one, defined by your company."

Using a flexible spending account to pay for childcare expenses is almost always a good idea, but participants should look into child and dependent care tax credits first, says Maxwell.

"This is because they are a trade-off between pre-tax dollars and tax credits," Maxwell says. "It is worth your time to look into both of these options and choose the one which is best for you. You may choose to take out as much as $5,000 for childcare expenses. This can make a big difference in the yearly taxes you pay."

Slavin says that Aetna always recommends that employees consult with their tax advisor if they have any questions or concerns about whether a flexible spending account is right for them.