

WORTH

FSAs: An Rx for Healthcare Costs

Flexible Spending Accounts Can Be a Cost-Effective and Tax-Saving Way to Pay Medical Expenses

Story by S. Kay Bell

STUDY AFTER STUDY CONFIRMS IT: Healthcare costs are rising at an ever-increasing rate. In 2005, the latest year complete data are available, total U.S. health expenditures hit \$2 trillion, or \$6,700 per person.

Even for individuals who have employer-provided healthcare, the news is not encouraging. Workplace insurance costs are growing, by some accounts, at close to four times the inflation rate.

If you have healthcare at work, though, you also might have access to another company benefit that could offset some of your medical expenses. Many businesses, especially larger ones, offer their workers the chance to open a flexible spending account, or FSA.

With a medical FSA, you can set aside money to pay for a wide variety of health-related costs. Even better, the cash goes into the account before

payroll taxes are figured, meaning the FSA could provide a bit of a tax break.

So why doesn't everyone who has an FSA option sign up? Benefits experts say general confusion about account guidelines, as well as fear that the money in the account might be wasted, tend to keep enrollment down.

And while anything that carries the tax-saving tag shouldn't be ignored, everyone's circumstances are different. Some folks find that flexible spending account participation just isn't for them.

FSA Pros

First, let's look at the accounts' benefits.

It's easy to participate. The money is taken out via regular payroll deductions throughout the year.

The account contributions are on a pre-tax basis, meaning your tax-

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able income, for federal income as well as Social Security taxes, will be less.

That's been a nice bonus for Laura Figueroa, who has a medical FSA at the Austin-based Texas Access to Justice Foundation, where she's the communications manager. "I wouldn't go to the trouble of joining a program unless it was proven to save me money," said Figueroa. "I'm looking at saving \$250 this year. It's not a huge, huge amount of money, but it's significant enough to make me want to join the program."

Figueroa used her plan's online calculator to help gauge her savings. She did her own calculations, too, just to confirm the numbers. Such attention is critical to maximizing the benefit.

"You just have to be very conscientious about how much you actually spend on medical expenses in a given year because there is a tendency to put too much in there," said Figueroa. "That makes you spend what you normally wouldn't have spent, and you're not saving anything if you do that. So

I try to underestimate and it's worked out very well."

Account reimbursement is easy. Claims usually can be submitted by fax. Many plans also offer a debit card you can use to pay for eligible products or services without any out-of-pocket pain. And many FSAs directly deposit reimbursements into the account holder's bank account, a service Figueroa uses.

"It feels good every time you make a purchase or you go to a doctor and you get that money put right back into your account," said Figueroa. "Psychologically, it just feels like you've done something beneficial for yourself."

As for those FSA-approved expenses, they include a wide range of medical costs, including many that aren't typically covered by insurance. Do you purchase multiple sets of disposable contact lenses throughout the year, buy cases of Claritin when cedar fever season arrives or get chiropractic treatment for that nagging backache? Your FSA money can pay for those needs and even for laser vision surgery if you're tired of the

PROS of FSAs

- \$ Easy to participate
- \$ Account contributions are on a pre-tax basis
- \$ Account reimbursement is easy
- \$ Immediate access to all your account money

CONS of FSAs

- \$ Timing of FSA reimbursements (use it or lose it)
- \$ Hassle factor
- \$ Highly-touted tax savings are "pretty negligible"
- \$ Takes time and organization

your employee portion of your workplace medical insurance coverage.

Another very appealing aspect of an FSA is that you have immediate access to all your account money the minute you enroll. Say, for example, you signed up to put \$1,000 into your plan for the benefit year, which begins in January; that's around \$84 a month. In March, your son breaks his arm and, after insurance payments, you're out \$500 in deductible costs. Even though you only have \$168 in your FSA from January and February contributions, you can get reimbursed the full \$500. On the plan's books, your account will show a deficit, that you will "pay off" each month until it's zeroed out and you start accruing reimbursement money again - in this case in July.

FSA Cons

Timing of FSA reimbursements, however, also can work against you. The accounts' major drawback is the use-it-or-lose-it feature. If you don't spend FSA money by a specific deadline, you forfeit the cash. Studies by benefits specialists show that em-

contacts. That's in addition to covering traditional expenses, such as copayments and deductibles for routine doctor office visits and prescriptions.

Purely cosmetic procedures, however, are not FSA-reimbursable. And neither can you use FSA money to pay

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ployees typically lose more than \$100 each year.

The claim date is the end of the company's benefit year, usually Dec. 31st. However, more and more businesses are taking advantage of an extension provision the IRS approved in 2005. Now, if a company chooses, its FSA participants have two-and-a-half additional months to get eligible services and make claims. That means employees on a calendar benefit year could use their FSA money for expenses incurred as late as March 15 the following year.

There also is the hassle factor.

Christina, who prefers only her first name be used, has taken advantage of her Austin employer's FSA option. But she's probably going to drop it during the upcoming benefits enrollment season.

She doesn't have any problem with the administration of the account. In fact, she said, the company that manages it "is very prompt and makes it easy to submit a claim" and the reimbursement turnaround is very quick.

But Christina has encountered several instances where expenses have

been questioned. An over-the-counter product was accepted without question the first time she submitted the expense; the second time, it was rejected.

FSA administrators use IRS general guidelines in determining which medical products and services it will pay. However, individual employers have the final say on which expenses to reimburse via an FSA program.

"There's been some inconsistency in what they reimburse," said Christina. "I don't know if it's an inconsistency in the list, or if it's the subjective decisions of different people who reviewed the receipt."

She has also found that the highly-touted tax savings in her case are "pretty negligible." Remember, you have to factor in your income, your tax bracket and how much you put in the account to find your actual savings.

Plus, while it's not overwhelming, FSA participation does take time and organization. You have to save the receipts, turn them in, keep track of your expense dates, both when you

get the treatment and when it must be submitted.

All that means is for Christina, right now, an FSA is not worth it.

"For a lot of people who use it, who have kids, it's good," said Christina, who is healthy and typically visits her doctor only once a year. "But for someone like me, who doesn't go to the doctor regularly, who doesn't have a lot of medical expenses, who doesn't buy a lot of over-the-counter medications, it's not really that useful."

The nice thing for Christina and folks in a similar situation is that the decision to opt out of an FSA is not irrevocable. If you have what the IRS calls a life-changing event - marriage, birth or adoption of a child, a change in your spouse's job - you can sign up for an FSA as soon as that occurs.

And if things stay the same, when the next benefits enrollment period rolls around, you'll get another chance to evaluate your personal and medical circumstances and, if it's appropriate then, sign up for an FSA. ★

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