Some Possible Good News on F.S.A.s

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FULL TEXT

Workers usually have to spend the money in their health spending accounts by the end of the year. But in the pandemic, employers were allowed to offer more wiggle room.

Do you have a flexible health spending account through your job? Rules for the accounts have changed temporarily because of the pandemic, and that may affect how much you'll want to save next year.

Flexible health spending accounts, or F.S.A.s, let employees set aside pretax money from their paychecks to help pay for medical and dental care that insurance doesn't cover.

In many cases, if you don't spend the money by a certain deadline -- often the end of the calendar year -- you forfeit the cash in your account.

"They are typically 'use it or lose it,'" said Lisa Myers, director of client services with the benefits consultant Willis Towers Watson.

Employers already had the option of offering wiggle room, like allowing workers to carry some of the money in their accounts into the new year or giving grace periods of a couple of months after the deadline for spending the money. About three-fourths of accounts offered one of those options in 2019, according to the nonpartisan and nonprofit Employee Benefit Research Institute.

But during the pandemic, many workers skipped in-person doctor visits or delayed nonemergency treatments and didn't use the money in their F.S.A.s. So the federal government allowed employers to grant workers even more leeway, by extending the usual deadlines or letting workers carry more of their account balances into next year.

Employers may allow a "full" carry-over of remaining balances for next year -- up to the total balance in the worker's F.S.A. So if you had $1,000 in your account at the end of this year, you could carry it all over into 2022. (The usual carry-over limit is $550.)

You can also contribute up to the maximum allowed in payroll deductions next year. The limit set by the Internal Revenue Service was $2,750 for 2021, but employers may set lower limits for their workers. The I.R.S. hasn't confirmed the maximum for 2022, Ms. Myers said.

Some workers, however, may choose to contribute less money next year if they have an extra cushion from a carry-over. It depends how much you think you'll need in 2022.

With annual open enrollment underway at many employers, workers should log on to their accounts or check with their employer to see how much money is available and decide whether to tweak their paycheck deductions for next year, Ms. Myers said.

"Employees need to know their balances," she said.

Employers have generally said they are seeking to hold the line on increases in health insurance costs for employees next year, given a challenging job market because of the pandemic.

The average employee contribution to an F.S.A. was just under $1,200 in 2019, according to the Employee Benefit Research Institute, which also found that nearly half of participants have forfeited all or part of their contributions. The median amount lost was $157. But because paycheck deductions are made pretax, employees shouldn't fret too much about leaving behind relatively small balances, said Paul Fronstin, director of health research at the institute.

"It's OK to lose a bit of money," he said, "if you're getting a tax break."

To see how much you can save in taxes with an F.S.A., you can try using online calculators, like the one at FSAstore.com, which sells F.S.A.-eligible products.

There's a caveat with all of the temporary changes, however. Any expansion of carry-over amounts or deadlines is at an employer's discretion -- and not all of them have made changes. About two-thirds of Willis Towers Watson's clients made changes in carry-over rules for this year (for amounts retained from 2020), but fewer than half are doing so for next year, Ms. Myers said.

A survey of 2,200 shoppers in early September suggested that many workers were unsure if their employer had adopted any of the changes, said Rida Wong, president of Health-E Commerce, which operates FSAstore.com. About a quarter said they had higher balances in their accounts than at this time last year.

So pay close attention to benefits information sent by your employer, Ms. Wong said. And if you are still unsure whether rules for your F.S.A. have changed, contact your human resources office, she said.

Here are some questions and answers about flexible spending accounts:

What can I buy with my F.S.A.?

The accounts can be used for medical care and co-payments, nonprescription drugs, and a variety of health-related services, products and supplies, including menstrual pads and tampons, breast pumps, contact lenses and lens solution.

And the I.R.S. recently clarified that masks, hand sanitizer and other items that protect against the spread of Covid-19 are eligible for reimbursement. At-home Covid tests also qualify, the I.R.S. said, because "the cost to diagnose Covid-19 is an eligible medical expense for tax purposes."

Details of eligible items can be found at Healthcare.gov.

Is a flexible health spending account the same as a health savings account?

No. F.S.A.s and health savings accounts, or H.S.A.s, have similarities but work differently. H.S.A.s have higher contribution limits, and they are portable: You can take them with you if you change jobs. H.S.A.s also offer broader tax advantages. Money is contributed tax free, grows tax free and is withdrawn tax free when spent on eligible expenses. And there's no deadline for spending the money. Most H.S.A.s offer investment options, so you can use them to accumulate funds for health costs in retirement. But H.S.A.s can be used only with health insurance plans that meet specific criteria, like a high deductible.

Do any temporary changes apply to 'dependent care' spending accounts?

Yes. Like health care F.S.A.s, dependent care accounts are offered by employers to allow workers to set aside pretax money -- in this case, to cover the expenses of caring for children or other family members. With dependent care accounts, there traditionally has been no grace period or carry-over option. Under a temporary pandemic relief change, however, all funds in dependent care accounts may be rolled over into 2022 -- if the employer chooses to allow it.

For 2022, the maximum amount that can be contributed to a dependent care account is $5,000.

Photograph

(PHOTOGRAPH BY Till Lauer FOR THE NEW YORK TIMES)

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