Flexible Spending Accounts:
Staff Educational Tool

Defining flexible spending accounts

The flexible spending account (FSA), also referred to as a flex plan or a reimbursement account, is an employer-sponsored benefit that allows participants to set pre-tax wages aside to "pay themselves back" for the costs of certain types of medical expenses that are not otherwise covered by their healthcare plans. Eligible expenses typically include office visit co-pays, certain dental and orthodontia procedures, and the costs of eyeglasses, contact lenses, eye exams, refractive laser eye surgery, and some prescription medications.

How FSAs works

The first step is to determine how much money will be needed to cover a participant's annual out-of-pocket expenses. Then a percentage of this total will be taken out of the participant's paycheck each pay period before taxes are deducted. The contribution is then placed into a non–interest-bearing FSA. Receipts for eligible expenses and completed reimbursement request forms are to be submitted and reimbursed with funds from the account according to the reimbursement guidelines determined by the plan. Because plans differ, your patients should contact their benefits departments to learn the specific details of their plans and to get a list of eligible and ineligible expenses.

Starting Jan. 1, 2013, FSAs will have annual limits of $2,500 per year. Going forward, the limit will rise annually based on the rate of inflation. In addition, FSAs will remain "use-it-or-lose-it" accounts. That is, any unused balance for one year can't be used to fund health care spending in the next year

Demonstrating how FSAs save money

An FSA is completely tax-free—and this saves money in three key ways:

- FSA contributions and withdrawals are not subject to federal income or state withholding taxes or FICA
- FSA participants' annual taxable income is reduced
- FSA participants are reimbursed for out-of-pocket expenses

Look at it this way: If a participant has a salary of $35,000 per year but also contributes $3,000 into an FSA, the taxable income is reduced to $32,000. By only paying taxes on $32,000, the tax burden is lowered by approximately $900—that's money in the participant's pocket. And the higher the tax bracket, the greater the savings.

However, the Federal Government requires that any funds remaining in the account at the end of the plan year be forfeited. Therefore, it is important to accurately estimate out-of-pocket expenses and only contribute enough to cover them.

Incorporating FSAs into your practice

- Recommend FSAs year-round
- Add FSA information to all communications materials, such as your website and direct mail
- Provide FSA handouts in patient information packets
- Discuss the advantages of FSAs anytime a patient asks about the costs of refractive procedures
- Come up with innovative marketing tools
    - For example, one practice handed out chocolate dollar bills to each patient as they checked in to start a conversation about ways to save money

Overcoming objections to FSAs

FSAs are a great opportunity for patients to save money. However, if you are going through a slowdown and would like to encourage patients to have their treatments now, you may want to show them how they can save money.

> For example: If a patient is going to contribute $500 into his or her FSA, and you have a promotion that would save the patient even more, talk with him or her about it. Try to have an FSA calculator available so that you can "run the numbers" to show your patient which way would save him or her the most money.

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