



Flexible Spending Arrangements (FSA)

What is it?

- Tax-advantaged employer plan that reimburses employees medical expenses.

What are some advantages to it?

- No federal income tax or employment tax on contributions.
- Tax-free distributions for qualified medical expenses.
- Employees can draw on the account for medical expenses before funds are placed in it.

What expenses can it be used to pay?

- Expenses specified by the plan that generally qualify for the medical and dental expenses deduction, but not traditional health insurance premiums.

Which employees can have it?

- Those enrolled in non-FSA group medical coverage and eligible under the rules of the plan, subject to the Section 105(h) and 125 nondiscrimination rules.

Which employees can have it? Employers and employees.

How much can be contributed to it?

- For plan years beginning in 2022, employees may contribute up to \$2,850.

Can employees carry over funds from year to year?

- Generally no, but employers may:
 - Allow employees to carry over \$570 to use in the following plan year; or
 - Provide a “grace period” of 2.5 months after the end of the plan year for employees to use the money in the account.

Is it portable for the employee?

- No.

What requirements must an employer satisfy?

- Have a written plan document
- Distribute a dummy plan description (SPD) within 90 days of the employee becoming a plan participant.
- Offer the health FSA as part of a cafeteria plan.
- Offer employees traditional group health insurance.
- If making contributions, meet the Section 105(h) and 125 nondiscrimination rules.
- Comply with the rules on mid-year election changes.
- Set the maximum benefit amount for each employee so that it does not exceed:
 - Two times the employee's health FSA salary reduction election for the year; or
 - If greater, \$500 plus the amount of the employee's health FSA salary reduction election for the year.
- Annually file IRS form 720 and pay PCORI fees by July 31, 2022 if applicable.

Can employers offer or contribute to it without also offering a group health plan?

- No.

Is it subject to COBRA?

- Yes, but may be provided on a limited basis.

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- IRS Publication 502
- IRS Publication 969
- DOL Guidance