Flexible Spending Plans

What is a Flexible Spending Account (FSA)

An FSA is a type of "cafeteria plan". With an FSA, church employees can reduce taxable salary up to the limits for that year and have that amount put into an FSA account. Funds in the FSA account are then used to reimburse the employee for eligible medical expenses. Although employers can contribute, FSAs are usually self-funded, meaning that the employee determines how much is to be placed in the account.

The advantage of an FSA is tax savings. The money put into the FSA and used to reimburse eligible medical expense is not taxable income to the employee. A potential disadvantage of an FSA is the "use it or lose it" requirement. This simply refers to the fact that if you do not spend all the money you have in your FSA account for a given year, the money remaining will be forfeited. It cannot be rolled over or refunded. An employer can offer one of 2 options to reduce the impact of the "use it or lose it" requirement:

1. A grace period can provide up to 2 ½ extra months to use the money for the prior year, OR
2. Employees can be allowed to carry over up to $ 500 per year to the following year.

Employers can offer either option but not both and employers are not required to offer either of these options.

While an FSA offers a distinct tax savings advantage for employees, one potential disadvantage for a church as employer is the "pre-funding" requirement. Employees contribute to the FSA in small increments, usually an equal amount each pay period during the year. Due to the "pre-funding" requirement an employee's entire annual contribution is available at the start of the plan year, usually January 1. Therefore, if an employee has qualified medical expenses during the first week of the year, the entire amount of the annual contribution can be claimed. If the individual's employment terminates for any reason during the year, no more contributions from the employee are made and that money is not repaid to the employer.

An employee's contribution amount cannot be changed during the year, unless the employee has a change in family or employment status meeting IRS requirements, such as marriage, birth of a child or death of a spouse.

FSA Funds can be used to pay for deductibles, prescription drugs, copayments and other certain medical and dental expenses including such things as medical equipment/supplies like crutches and bandages. Except for insulin, over-the-counter medicines can only be paid with FSA funds if purchased using a prescription.

An FSA must be non-discriminatory so that it does not favor only higher compensated employees. It should be available to all eligible employees. All employees do not have to participate but it should be available. A church may opt to self-administer their FSA or they may use a third party administrator. (*Employee Benefit Corporation is a third party administrator for FSAs that has been endorsed by GuideStone Financial Resources. See web link below.*) If the church self-administers the plan attention must be given to confidentiality issues.

As of 2015 the annual limit on contributions is $ 2,550. An employer may opt for a lower limit but not higher. The limit will increase in future years based on inflation.

> *(Note: FSA Plans similar to a Health FSA exist for dependent care with an annual limit of $ 5,000. Those funds can be used for child care expenses incurred for children under the age of 13, such as nursery school tuition and day care fees. It may also be used for the care of disabled adults who have the same principal residence as the taxpayer for more than half of the taxable year.)*

For more information:

http://www.guidestoneinsurance.org/FormsandFAQ/FAQs/HSAsHRAsFSAs

Employee Benefits Corporation: www.ebcflex.com

http://en.wikipedia.org/wiki/Flexible_spending_account