

BENEFITS INSIGHTS

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Limited-purpose FSAs

Have you considered adding a limited-purpose flexible spending account (FSA) option to your company's health care coverage options? Before your employees start contributing to a limited-purpose FSA, they need to know how this type of health plan works and how it can be advantageous for them.

A limited-purpose FSA is similar to a general-purpose health FSA—the difference being that there are fewer eligible expenses.

The main advantage of FSA funds is that employees can pay for qualifying expenses tax-free while reducing their taxable income.

FSA Rules

Employees are not allowed to contribute to both a health savings account (HSA) as well as a standard (non-limited) health flexible spending account (FSA). They are, however, eligible for an HSA if they use a limited-purpose FSA for their dental and vision care needs. This will allow your employees to maximize their savings and tax benefits.

As an employer, you have the option of incentivizing a limited-purpose FSA by reimbursing standard FSA-qualified health care expenses as your employees meet their deductible. This would cause your employees' limited health care FSA to work like a standard health care FSA and will not limit it to dental, vision or preventive care. Employees would remain eligible for an HSA once meeting their limited-purpose FSA deductible.

FSAs employ a "use-it-or-lose-it" model. If you do not use the funds that you contribute to your limited-purpose FSA within the end of the year, you will have to forfeit those funds. However, employers also have the option of allowing employees to carry over up to \$500 of unused funds from one year to the next. In addition, any amount that is carried over does not count toward the maximum contribution limit.

In a limited-purpose FSA, covered health care procedures are limited to dental, vision and preventive care.

Over-the-counter medicines are not covered under an FSA without a doctor's prescription (except for insulin).

The main advantage of FSA funds is that employees can pay for qualifying medical expenses tax-free while reducing their taxable income.





There are contribution limits to FSAs. The contribution limit for 2017 is \$2,600. There is also no “double-dipping,” meaning that employees are unable to pay for a medical procedure using their FSA as well as an additional plan or program, such as an HSA.

If your employees have planned future dental or vision expenses, limited-purpose FSAs make a lot of sense, especially when used in conjunction with an HSA.

Typical eligible limited FSA expenses:

Dental

- Cleaning
- Fillings
- Crowns
- Orthodontia

Vision

- Contact lenses
- Eyeglasses
- Refractions
- Vision correction procedures

Typical ineligible limited FSA expenses:

- Insurance premiums
 - Medical expenses (deductibles, coinsurance and copays)
 - Alcohol and drug rehab expenses
 - Prescription medicine
 - Over-the-counter medicine
 - Medical equipment
 - Contraceptives
 - Cosmetic procedures
 - Expenses reimbursed by an insurance provider or other health plan
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