

FSA eligible expenses — what purchases count?



Open enrollment is underway for many companies right now and one benefits offering that may be on the menu this year is an FSA. Employers are constantly looking for ways to remain competitive in their benefits offerings, and an FSA is a great add-on to your benefits package.

Flexible Spending Accounts allow employees to set aside pre-tax dollars from their paycheck to use for medical or dependent care expenses. These funds are placed in an FSA account that employees can use to pay for eligible expenses. They can also seek reimbursement for FSA-eligible expenses that they placed on their personal cards.

For employees, figuring out exactly what expenses are FSA eligible can be a bit confusing. Many employees are coming to the end of the year and realizing that they still have a lot of money in their FSA accounts that they need to spend. They may also be questioning whether they have a need for an FSA and if so, how much they should choose to have deducted each month. Many people are surprised to learn how many everyday items are actually FSA eligible. Wherever you fall, we have answers for you.

Here is what you need to know to figure out if an expense is FSA eligible.

Types of FSA Plans

While flexible spending accounts are typically associated with medical costs there are a couple of different types of FSAs.

- **Healthcare FSA.** The most commonly used FSA is the healthcare FSA. This allows you to use pre-tax dollars to cover copays, out-of-pocket medical, vision, or dental expenses, and purchase eligible health care products. The maximum that an employee may contribute to a healthcare FSA is \$2,750.
- **Dependent Care FSA:** A dependent care FSA is designed to set aside pretax dollars to go towards childcare, eldercare, or other dependent care expenses. The annual dependent care FSA contribution limit is \$5,000. However, the American Rescue Plan Act temporarily raised that to \$10,500 for the 2021 plan year.
- **Limited Purpose FSA:** An FSA that covers out-of-pocket costs for dental and vision care, but not standard medical care. These are generally offered in conjunction with a health savings account (HSA) that will set aside money separately for medical expenses.

What Expenses Are Covered By an FSA?

Healthcare FSAs

The eligible expenses for healthcare FSAs are quite vast and span a number of categories.

Some common FSA eligible expenses include:

- Prescription drugs.
- Copays, co-insurance, and deductibles for medical care.
- Dental care and procedures including cleanings, x-rays, extractions, crowns, bridges, dentures, implants, and other non-cosmetic procedures. Out-of-pocket expenses for vision care including eye exams, eyeglasses, contact lenses, and eye surgery. This includes Lasik.
- Care by specialty medical providers including dermatology, psychiatry, oncology, allergy specialists, genetic counselors, naturopathic medicine, acupuncture, and chiropractic care.
- Over-the-counter medicine such as pain relievers, antacids, allergy medicine, anti-itch creams, sleep aids, eye drops, acne treatment, nasal sprays, and more.
- Birth control including condoms, OTC birth control, and birth control prescribed by a doctor.
- Expenses related to the training and care of a guide dog or other service animal.
- Medical equipment such as crutches, joint wraps, artificial limbs, blood pressure monitors, hearing aids, first aid kits, and CPAP machines.
- Lactation supplies such as breast pumps and lactation consulting.

- Menstrual supplies such as pads, tampons, cups, and liners.
- Smoking cessation tools including patches, lozenges, and counseling.
- Addiction treatment services for alcohol or drug addiction.
- Pregnancy tests.
- Sunscreen with at least 15 SPF coverage.
- Braille books and magazines for visually impaired people.

The following expenses are not eligible for reimbursement under a healthcare FSA:

- Cosmetic dental services such as teeth whitening. Veneers are also typically considered cosmetic, but may be covered if the tooth has sustained trauma or severe damage such as a chip. To have a procedure that is generally considered cosmetic covered you would need to provide a letter of medical necessity from your provider.
- Cosmetic surgery unless medically necessary due to a congenital abnormality, an injury resulting from an accident or trauma, or a disfiguring disease.
- Health insurance premiums including COBRA premiums.
- Medical Marijuana.
- Diet foods health club memberships unless prescribed by a medical professional to treat a specific medical condition. A prescription or doctor's note is required.
- Any expenses already covered or reimbursed by insurance.
- General health products and hygiene products like unmedicated lotions, shampoos, or toothpaste (unless prescribed).
- Vitamins and supplements used to maintain general health. For example, a daily multivitamin probably won't be FSA eligible. However, if you have low iron and have been told by a medical professional that you need to take iron supplements, iron pills may be FSA eligible as long as you have documentation to support the medical necessity.

Amazon and other retailers often note which items are FSA eligible on their online stores and allow you to

specifically search for FSA eligible items to make it easier for employees to spend their FSA balance.

You can also check the latest IRS publication to see what items are eligible. They do make changes periodically to expand on the list of FSA eligible items. OTC medicine and feminine hygiene products were added in recent years. The IRS also made updates during the COVID-19 pandemic to cover face masks, hand sanitizer, and other forms of personal protective equipment.

Dependent Care FSAs

Dependent Care FSAs can be used to cover the costs of care for children under 13 including:

- Before and after school care.
- Babysitting and nanny expenses for care while the parent is at work or conducting work-related activities.
- Daycare, nursery school, and preschool.
- Summer day camp.

FSAs do not cover sleepaway camps, babysitting for occasions that are not work-related such as getting a date night sitter, tutoring, extracurricular activities or lessons such as dance classes, costs for school field trips, diapers, or diaper services.

Dependent care FSAs can also be put towards the cost of care for an older child, spouse, or relative who is physically or mentally incapable of self-care and lives in your home. Eligible expenses for this type of care include:

- Adult daycare centers.
- Custodial eldercare (work-related).
- Transportation expenses to and from eligible care (provided by the dependent's care provider).
- Care in your home or somebody else's.

You will notice that both childcare and eldercare are meant to be work-related. Dependent care flexible spending accounts are meant to help you pay for dependent care while you are working, commuting, engaged in work-related activities, or looking for work.

Limited Purpose FSA

A limited purpose flexible spending account will cover medically necessary dental and vision costs. The eligible expenses will match the eligible dental and vision expenses under a regular healthcare FSA such as:

- Contact lenses.
- Eyeglasses or contacts.
- Optometry appointments and exams.
- Dental exams and x-rays.
- Dentures.
- Crowns, bridges, and implants.
- Fillings and sealants.
- Invisalign.
- OTC eye drops and treatments.

What Happens to Unused Funds?

FSAs do operate under a “use it or lose it” system, though some extensions were made during the covid-19 pandemic. Employees typically need to use the money in their FSA within the plan year.

Employers can offer one of 2 options if they want to provide employees with a bit more flexibility in using up their FSA balance:

- Employers can provide a grace period of up to two and a half extra months for employees to use up the money in their FSA account.
- Employers may allow employees to carry over up to \$550 per year to use in the following plan year.

Employers can choose one, but not both of these options. They can also choose to offer neither and require that all funds be used within the plan year. The unused funds do go to the employer, who may use the money to cover expenses related to administering the FSA plan. They may also divide the unused fund among all employees enrolled in the FSA plan. You cannot, however, give the full balance of their unused funds back directly to the person whose FSA funds were forfeited.

A Wide Array of FSA Eligible Items

As you can see, the list of FSA eligible items is quite large, especially for healthcare FSAs. The best way to ensure you are using your FSA funds before you lose them is to double-check the latest IRS updates on eligible expenses and use search features on Amazon or retailer websites to find FSA eligible items.

If you find yourself coming to the end of the year with a lot of unused FSA funds and you're not planning to have any upcoming medical services, you can stock up on eligible health-related items for the new year — just be sure to follow all guidelines and double-check item eligibility. You can also talk to your employer about whether they will be allowing a grace period or rollover.

Employers may want to consider offering one of the two options this year, as many people put off medical treatment or required less dependent care during the covid-19 pandemic. It's also a good idea to send out a reminder to employees around this time of year to encourage them to submit reimbursements or spend their remaining FSA balances. While employers may benefit from unused funds being reallocated to them to cover administrative expenses, this is generally not good for employee satisfaction so it's still best to encourage people to use their funds.