

Flexible Spending Accounts (FSAs)

What is an FSA and how does it work?

An FSA is an employer-sponsored spending account that allows employees to set aside pretax earnings to pay for eligible health care or dependent care expenses. Employees decide how much to contribute, tax-free, for the year. Pre-tax funds are deducted from each paycheck evenly and automatically deposited into an FSA account.

What types of FSAs are available?

There are two types of FSAs employers can offer to employees. Employees can participate in one or both.

Medical FSA — The medical FSA covers general-purpose and qualified health expenses such as prescription drugs, insurance copayments and deductibles, and medical devices. Medical FSA funds come from employee contributions, and unused dollars are forfeited at year's end, so set aside the right amount of money for your medical expenses.

Dependent Care FSA — This type of FSA helps participants save money on eligible dependent care services, such as child (up to age 13) or adult daycare, before or after school programs, summer day camp.

What expenses are eligible?

Expenses covered with a **Medical FSA** include, but are not limited to:

- Copays and coinsurance
- Doctor visits and surgeries
- Over-the-counter medications (first aid, allergy, asthma, cold/flu, heartburn, etc.)
- Prescription drugs
- Birthing and lamaze classes
- Dental and orthodontia
- Frames, contacts, prescription sunglasses, and more

Expenses covered with a **Dependent Care FSA** include, but are not limited to:

- Child care center, babysitter, nanny (birth through age 12)
- Summer day camp
- Before- or after-school care
- Disabled dependent and/or spouse care
- Elder care

How is an FSA funded?

When a participant enrolls through their employer, they set an annual election amount that will come out of their paycheck (tax-free). Employers can also contribute to a FSA account.

Account Name	What's covered	2026 Employee Contribution Maximum
Medical FSA	Covers medical costs, orthodontic care, dental, and vision.	\$3,400
Dependent Care FSA	Covers daycare for children under age 13 and other dependents not capable of self-care.	\$7,500 per household, or \$3,750 if married, filing separately

What are the benefits to employees?

Simplified access to funds to eligible expenses:

- **Medical FSA:** funds available on first day of plan year
- **Dependent Care FSA:** funds are available as they are contributed

Distributions for eligible expenses and contributions are tax-free.

How do employers save money?

- Employee contributions reduce payroll taxes
- Employers own the plan and have the flexibility to design the plan to suit employee needs
- FSAs are an attractive benefit that can help with recruitment and retention

What happens to funds at the end of the year?

Depends on plan design. If the plan includes a carryover, up to \$680 can be rolled over into the next year.

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