

# How to Calculate your FSA Elections

## Deciding on your Annual Election Amount

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When deciding what amount to set aside for your Medical FSA or Dependent Care FSA you should consider carefully how much you are likely to spend within the year. Remember that you can only submit medical claims for yourself and your qualifying dependents to the Medical FSA, and you can only seek child care reimbursement for qualifying dependents under age 13 for the Dependent Care FSA. More importantly: you cannot transfer or commingle these funds; Medical FSA and Dependent Care FSA serve different purposes.

Here are five important facts to remember when making this decision:

### **Fact #1: FSA is “Use It or Lose It”**

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Flexible Spending Accounts (both medical and dependent care) are identified under Section 125 rules as “use it or lose it” by the IRS which means that the money you allot is forfeited at the end of the year, following the grace period. For 2020-2021 there were special rules in place, but the plan’s default grace period for Medical FSA ends on March 15<sup>th</sup> following the plan year, with a deadline of March 31<sup>st</sup> to submit all claims and receipts. For Dependent Care, there is no special grace period and all claims and receipts must be submitted by December 31<sup>st</sup> of the plan year.

**Example:** for Plan Year 2022 you can get medical claims reimbursed if you incurred the claim and cost by no later than March 15<sup>th</sup>, 2023 and submit for reimbursement by March 31<sup>st</sup> 2023. Dependent care claims must be submitted by December 31<sup>st</sup> 2022 to be covered for the plan year.

### **Fact #2: FSA must be re-elected each year**

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Your medical, dental, vision and supplemental elections do not require re-enrollment year over year, but your FSA does. If you elected FSA in 2021 and wish to continue with FSA in 2022, you must re-enroll and decide on new elections for the coming year. If you do not, your FSA coverage will end.

### **Fact #3: You pay for the FSA out of bi-weekly deductions from pay advice**

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FSA is not a special contribution from your employer. The amount you elect is deducted from your bi-weekly pay advice, and Medical FSA can be used immediately up to your election maximum. Dependent Care FSA is also deducted bi-weekly from your pay advice, but the funds can only be used as accrued.

### **Fact #4: The FSA benefit ends when your leave employment**

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If you end employment, your FSA benefit will also end unless you have accrued more in contributions than you have spent, at which time you may be able to use up the difference if you elect COBRA. Otherwise, you may only seek reimbursement on claims accrued up to the date of your termination of employment.

### **Fact #5: Documentation is a necessary requirement for claims reimbursement**

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The FSA program uses debit cards to ease the process of paying for eligible services, but it is not infallible, and you should assume that an itemized receipt, Explanation of Benefits, or other documentation will be necessary to complete the claim. More information on documentation requirements and eligible products and services can be found at <https://www.mybenefitsnm.com/FSA.html>. If you submit a claim or use the card and substantiation is required, the documentation must be submitted, or the claim could be denied and require reimbursement of costs to the plan. If this sounds like a lot of trouble, please keep in mind that it is a requirement of FSA plans to verify that the claims submitted are qualifying eligible expenses in order to gain the tax benefit of the FSA program, and documentation is not optional.

## Verifying if you want to elect FSA

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Take a look at the following list and place a checkmark beside each Fact that you are comfortable with:

- I understand that FSA is “use it or lose it” and if I do not spend the money by the end of the plan year and grace period the funds are forfeit;
- I understand that FSA is an annual election and I must re-elect it each year as it is not automatic;
- I understand FSA is paid for by my own funds and deducted from my bi-weekly pay advice;
- I understand that FSA will end under most circumstances when I leave employment;
- I understand that FSA claims require documentation which I am responsible for submitting.

If you checked on each one, then you are ready to figure out your annual elections.

## Write Down your Monthly, Quarterly, Bi-Annual and Annual Costs

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There is no hard and fast rule to establishing how much you should elect for Medical FSA or Dependent Care FSA, but there are some good rules of thumb you can follow. Make a list of the known recurring medical expenses for Medical FSA, and known recurring child care expenses for Dependent Care FSA. If you are aware of costs for unique or one-time events (such as special procedures or surgery that is scheduled within the year) include that under unique costs, but do not budget for such expenses unless you are certain they will be incurred within the year.

FSA Worksheet:

*Medical FSA: Example: prescriptions, shots, annual or periodic appointments, scheduled checkups, etc.*

Known medical monthly recurring costs: \_\_\_\_\_

Known medical quarterly recurring costs: \_\_\_\_\_

Known annual and bi-annual medical recurring costs: \_\_\_\_\_

Unique medical costs known or scheduled within the year: \_\_\_\_\_

Medical Cost Total: \_\_\_\_\_

*Use this figure or the individual election maximum of \$2,750 (as of 2021), whichever is the lesser amount.*

*Dependent Care FSA: daycare fees, qualifying babysitter fees, after school care, etc.*

Known monthly and weekly child care costs: \_\_\_\_\_

Known quarterly child care costs: \_\_\_\_\_

Known Annual or Bi-Annual child care costs: \_\_\_\_\_

Unique or one-time dependent care costs scheduled within the year: \_\_\_\_\_

Dependent Care Costs Total: \_\_\_\_\_

*Use this figure or the household election maximum of \$10,500 (as of 2021), whichever is the lesser amount.*

Once you have established your expected annual costs for either medical or dependent care, you may determine approximately how much you should elect to ensure those costs are covered within the plan year. If your total medical expenses are in excess of the allowable maximums for the coming plan year then you may instead elect the annual caps, which as of 2021 are \$2,750 per individual for medical FSA and \$10,500 per household for Dependent Care FSA.

**Example #1:** Nick has a recurring prescription of \$50 per month and knows he sees his doctor for one free annual checkup each year, plus an annual visit with the specialist for a \$100 co-pay. He determines that he can anticipate spending \$600 in monthly total expenses during the year, plus \$100 for an annual visit. Nick knows he will need to elect \$700 in his Medical FSA to cover costs.

Nick also has a 9-year-old dependent son who attends the after-school care program which costs him \$60 per week. He checks a calendar and anticipates that he will need to spend \$60 over 40 weeks to cover his son's after-school program, for a total of \$2,400. He knows he can elect \$2,400 in dependent care to cover this.

After reviewing his annual costs, Nick decides that it is safe to elect \$700 for his annual Medical FSA election and \$2,400 for his annual Dependent Care FSA election.

## Unanticipated Costs

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It is always possible that you will face unanticipated costs for both medical needs and dependent care. If you are uncertain if you may face such costs but want to elect an amount above what your known incurred costs will be, you are able to do so, up to the annual election maximums. Keep in mind that if you are unable to spend those funds they will be forfeit following the end of the plan year or grace period.

For Medical FSA, since it has a grace period running through March 15<sup>th</sup> of the following year, you could end up using any excess election amount on claims for the following year. For 2022, for example, If you reach January and discover that you have \$150 of unspent funds then you can submit claims to use up these funds through March 15<sup>th</sup>. That means claims incurred through March 15<sup>th</sup>, 2023 can go toward the prior year's elections if needed.

If you have an election in excess of incurred costs for the year, make a note of it as follows for the worksheet:

Medical FSA Worksheet:

*Medical or Dependent Care FSA Adjustments for the Next Plan Year:*

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|---|-------|
| 1. Elected amount for the prior year      | _____ |
| 2. Amount actually spent on medical costs | _____ |
| Difference:                               | _____ |

Dependent Care FSA Worksheet:

*Dependent Care FSA Adjustments for the Next Plan Year:*

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|--|-------|
| 1. Elected Dependent Care FSA contribution for the prior year  | _____ |
| 2. Amount actually spent on qualifying dependent care expenses | _____ |
| Difference:  | _____ |

For each worksheet, subtract line 2 from line 1; this is the amount you should consider adjusting your new year's election by to avoid withholding more funds than you can spend within the plan year, or increase your new year's election to cover additional costs. This can also help determine when your monthly medical or dependent care expenses ended up being more or less than you anticipated.

**Example #2:** Nick elected \$700 in Medical FSA and \$2,400 in Dependent Care FSA for the plan year 2022. In 2023, he realizes that In July his monthly prescription costs changed from \$50 a month to \$25, a noticeable savings. This left him with \$150 more in his Medical FSA election than planned. He can spend some of it during the grace period to use up the funds, but it is possible he will end up losing some of it otherwise.

However, Nick also elected \$2,400 in Dependent Care FSA to cover after-school costs. During the school year he discovered in August that the weekly cost jumped to \$70 per week, for the next twenty weeks. This meant that while he had \$2,400 set aside through Dependent Care FSA, his actual cost for the year was greater, totaling an additional \$200 he spent in the year. For next year he knows he will need to anticipate the increase in his election.

Unfortunately, even though Nick is left with a surplus in Medical FSA, that cannot be transferred to Dependent Care FSA. These elections are discreet and different under IRS rules, and cannot be commingled.

*You may still have questions about FSA and how much you should elect. Do not hesitate to give us a call or drop us an email, and we will be happy to assist.*

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