HEALTHCARE FLEXIBLE SPENDING ACCOUNTS (FSA)

The IRS allows a Healthcare FSA to reimburse eligible §213(d) medical expenses including certain over-the-counter (OTC) items of an employee, the employee's spouse, and the employee's dependent children. In general, reimbursable expenses are those that result from the diagnosis, care, mitigation, treatment, or prevention of disease or illness affecting any part or function of the body. Expenses recommended for the bettering of an individual's general health or well-being (e.g., vitamins or fitness club memberships) are generally not eligible for reimbursement.

As of January 1, 2011, to be considered eligible for reimbursement, all medicines and drugs (other than insulin) must be supported by a prescription, even if the medicine or drug is also available over the counter. OTC medicines and drugs will no longer be eligible without a filled prescription receipt. Please keep this new federal requirement in mind when using your healthcare account for expenses incurred on or after January 1, 2011.

Effective January 1, 2013, healthcare FSA employee contributions are limited to $2,500 per year. This change was part of the Patient Protection and Affordable Care Act (PPACA). If both spouses can participate in an FSA, whether at the same or different employers, each can fund his/her health FSA up to the $2,500 limit.

Only you, your spouse, children, or other person who is a qualified dependent as defined by the IRS is able to incur an eligible expense.

ELIGIBLE HEALTHCARE EXPENSES

To be considered for reimbursement, all eligible expenses must be incurred during your company's plan year, while you are participating in your company's plan and prior to your termination in the plan. Generally, a medical expense is incurred on the date you, your spouse, or your dependent, receive medical care or treatment, not the date on which you pay for the care or treatment.

Who is a Qualified Dependent?

The Internal Revenue Code defines a "dependent" as a qualifying child or relative who must reside with you for more than half the year and must not provide over half of his/her own support; this includes full-time students ages 19 through 24; or a child over the age of 19 who is permanently disabled. A "qualifying relative" is an eligible individual such as a parent, sibling, or in-law, if (1) you provide more than half of the individual's support and (2) the individual is not a qualifying child of you or any other taxpayer.

Based on recent changes made by the healthcare reform legislation, tax-free reimbursement of medical expenses may be permitted for adult children up to age 26. Any questions regarding the status of an individual as either a qualifying child, qualifying relative, or an adult child must be discussed with a qualified tax advisor in conjunction with the provisions of the employer's plan.

IMPORTANT:

Eligible medical care expenses include amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate or prevent a physical or mental defect or illness. Expenses solely for cosmetic reasons are not generally expenses for medical care and may not be eligible. Expenses that are merely beneficial to one's general health are not expenses for medical care. In many instances, you are required to provide a Letter of Medical Necessity from your attending physician to substantiate your claim.