An Introduction to FSAs

A flexible spending account (FSA) is a personal expense account that lets you set aside a portion of your salary pretax and use that money to pay for medical costs not paid for by your health plan.

How it works

- You enroll in your employer-sponsored FSA
- You elect a contribution amount for the year. Contribute only what you think you'll need, because any money left at the end of the year does not roll over unless your employer allows FSA rollover or a grace period.
- Contributions are deducted in equal installments throughout the year from your paycheck, so there's no extra work on your part. The deductions are made pretax, so they should ultimately reduce your tax bill.
- Throughout the year, you can use the money in your FSA to pay for health expenses--these will count toward your health plan deductible and out-of-pocket maximum.

How much should you contribute?

When deciding how much to contribute to your FSA, consider the following questions:

- Do you expect to have medical, dental, or vision expenses that are not fully covered by insurance?
- Do you, your spouse, or your eligible tax dependents have an ongoing condition that requires expensive medication or frequent visits to a physician?
- Do you, your spouse or eligible dependents need prescription eyeglasses, sunglasses, contact lenses and/or lens solution?
- Do you pay for day care for your children or adult dependents?

Remember, be conservative in your estimates because money left in the account at the end of the year may be forfeited unless your employer allows FSA rollover or a grace period.

Additional resource

You can use our worksheet to calculate how much money you should set aside.