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Know Your Benefits

5 FSA Facts and Myths

Flexible spending accounts (FSAs) have existed since the 1970s and are designed to help employees pay for qualified out-of-pocket expenses with pre-tax dollars. These accounts offer tax advantages that can reduce your overall taxable income, making them a smart option for many people managing health care or dependent care costs.

FSAs are commonly offered by employers as part of a benefits package. They are used to cover a wide range of expenses, including prescriptions, doctor copays, childcare costs and even some over-the-counter items. However, despite their longstanding presence on the benefits landscape, FSAs remain widely misunderstood. Whether it’s about concerns regarding “use it or lose it” rules or confusion around eligibility, many people are unsure whether enrolling is worth it.

As you review your FSA options during open enrollment, or even if you’re already enrolled, it’s important to separate fact from fiction. Understanding how FSAs work, including contribution limits, is key to maximizing your benefits and avoiding surprises.

For 2025, the IRS allows up to $3,300 in contributions to a health care FSA. Dependent care FSAs remain capped at $5,000 per household. The 2026 limits for FSAs will be released later in 2025.

Types of FSAs

Employers may offer different types of FSAs to support employee well-being. Understanding which type fits your needs can help you maximize your benefits.

- **Health care FSA**—This is the most common type of FSA. It allows you to set aside pre-tax dollars for eligible medical, dental and vision expenses. This can include prescription medications, eyeglasses and mental health counseling. Even some over-the-counter products and menstrual care items are covered under current IRS guidelines.
- **Dependent care FSA (DCFSA)**—Sometimes referred to as a “child care FSA,” this account helps cover costs for day care, after-school programs or in-home care for children under age 13 or for an adult dependent who needs care while you work. Unlike health care FSAs, DCFSA funds are made available as contributions accumulate over time, not all at once.

Confirm with your HR or benefits team which types of FSAs are offered through your plan and how each aligns with your circumstances.

5 Facts About FSAs

FSAs can provide valuable benefits, but they work differently than other savings or spending accounts. These five key facts highlight how FSAs can help you save money and cover essential expenses:

1. **FSAs offer tax advantages.** One of the most significant benefits of an FSA is tax savings. Contributions are made on a pre-tax basis, reducing your taxable income. This can save hundreds of dollars annually, depending on your tax bracket and contribution level.
2. **FSAs can be used for more than copays.** Health care FSAs cover more than just copays and deductibles. They can be used for vision and dental expenses, mental health services, medical equipment and many over-the-counter products, such as bandages, contact lens solution and sunscreen, with no prescription required for many items.
3. **There are different types of FSAs.** The most common are health care FSAs and DCFSAs. A health

care FSA is used for personal medical expenses, while a DCFSA is used for expenses like day care, preschool, summer day camps and elder care.

4. **Some employers offer grace periods or carryovers.** Although FSAs generally operate on a "use it or lose it" basis, many employers allow you to carry over up to $660 of unused funds into the next plan year (2025 limit) or give a grace period of up to 2.5 months to spend remaining funds. Each employer can choose one of these options, but not both.

5. **You can access the full health care FSA amount on day one.** Unlike a savings account that grows as you deposit money, your entire annual health care FSA election is available to you at the beginning of the plan year, even though you contribute throughout the year via payroll deductions. However, this is not the case for DCFSAs.

5 Common Myths About FSAs

While FSAs offer clear advantages, many employees hesitate to enroll because of outdated or inaccurate information. The following common FSA myths might prevent people from signing up:

1. **Myth: "I'll lose all my money if I don't use it by Dec. 31."**
   Reality: While FSAs have a "use it or lose it" rule, many plans include a grace period or a carryover option. Check your specific plan rules. For 2025, your employer may allow you to carry over up to $660 into the next plan year or use the remaining funds through mid-March.

2. **Myth: "FSAs and HSAs are the same thing."**
   Reality: Both accounts offer tax savings for health care expenses but differ greatly. HSAs are tied to high deductible health plans, can earn interest, and can be rolled over indefinitely. FSAs do not earn interest, and unused funds typically expire at the plan year's end (unless your plan allows a carryover or grace period).

3. **Myth: "You need to save receipts for every expense."**
   Reality: While you may need documentation for some purchases, many FSA cards automatically recognize eligible expenses at participating merchants. But it's smart to keep receipts in case your FSA administrator requests proof later.

4. **Myth: "I can adjust my FSA contributions anytime."**
   Reality: You can typically change your FSA election only during your employer's annual open enrollment period unless you experience a qualifying life event, such as marriage, divorce or the birth of a child (if permitted by your employer).

5. **Myth: "I can enroll in both a health care FSA and HSA."**
   Reality: You cannot have a health care FSA and an HSA. However, if you are enrolled in an HSA, you can enroll in a DCFSA or a limited FSA, which can only be used for dental and vision expenses.

Conclusion

FSAs can be powerful tools for managing health and family-related costs while lowering taxable income. To make the most of these accounts, it's essential to understand how they work and avoid common misconceptions.

Check with your employer to learn more about the specific FSA options available, including contribution limits, covered expenses, and any rollover or grace period features your plan may offer.