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Flexible Spending Accounts

by George W. Gonser Jr., MBA, CDHC

A Flexible Spending Account (or FSA) is an important component of a Section 125 Plan. The FSA is a creative funding tool which allows for staff and a business or both contributing monies pre-tax into a fund which can be used for a variety of Medical, Vision and Dental purposes. FSAs have grown in popularity over the past few years as insurance costs have continued to rise. FSAs allow for a funding mechanism for Medical, Vision and Dental expenses above and beyond which are covered by insurance plans.

FSAs are very attractive to both employees and Dental practice owners alike. Every dollar partitioned out of an employee to go into their FSA account saves employees a minimum of 28.65% and employers save 7.65%.

For example purposes:

- An employee needs to replace their glasses in the next year. Instead of going out and paying for the glass with post tax dollars, they put \$1,000 into their FSA account.
- The \$1,000 is broken up by the number of pay periods. If there are 26 pay periods, then \$38.46 is taken out of the salary every pay period for the year.
- The employee simply purchases the glasses and pays for it by using a swipe card or being reimbursed via bill submission to the FSA vendor.
- If the glasses are less than \$1,000, they can use the remaining balance on other services deemed eligible by the FSA administration.
- The savings on the \$1,000 for the employee is \$280 (or more depending on the tax bracket) and the employer saves \$76.50. This is a win/win for the practice and the employee.

Note, there is currently legislation proposed to reshape FSAs. One in particular is to allow for FSA accounts to carry over a portion or all of the unused balance at the end of the year. The current structure requires you to use all the funds in the FSA account before the end of the plan year or you lose whatever wasn't spent. But don't fret, one of the usage rules changed in 2003 which allowed for FSAs to pay for over the counter medications. So, if there is money in the account as you get close to the end of the plan year; buy the Benadryl or Eye Glass Saline Solution to clear the account.

FSAs are also a great employee retention and recruitment tool. Contact MDS Insurance Services to discuss the program and how it can help your practice.

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