

Paying for Healthcare or Daycare? Flexible Spending Accounts Can Help!

Healthcare and daycare for dependents, children or adults, are expensive. In the United States, health care spending growth has outpaced inflation, the population, and income, to name a few, and does not appear to be slowing downⁱ. One out of every three families spends 20% of their income on childcareⁱⁱ.

Do you spend about that amount?

Whatever you spend, there's a way to save some money. You can take advantage of a *Flexible Spending Account* (FSA). As either a University of Maryland or State of Maryland employee, you can take advantage of an FSA as part of your employer-provided benefits.

What is an FSA account?

A flexible spending account is a great, tax-advantaged tool that can help you save for health and dependent care expenses. Tax-advantaged means you can automatically transfer money from your paycheck into the FSA, prior to taxes being taken out. It is a win-win. You save money on taxes and have money set aside for eligible healthcare and dependent care expenses.

Keep reading and learn:

- a) Uses and benefits (and drawbacks) of an FSA;
- b) How to calculate the amount of money you may want to put into an FSA;
- c) How to set up and use your FSA following the steps in this fact sheet.

What are the benefits of having an FSA account?

Pre-Tax Dollars: FSAs put your pre-tax dollars to work. Why is this important? Pre-tax dollars means that the money is set aside before taxes (Federal, FICA, and State) are taken out of your paycheck. Setting money aside in this way, before taxes, has two benefits: (1). Setting this money aside before taxes lowers your end-of-year tax bill. When the money is set aside, prior to taxes, it is though that money never existed. (2). Because the money is going into the FSA account before taxes are taken from it, you get a little extra – because the taxes were not deducted.

Medical or Healthcare Flexible Spending Accounts: You can set aside between \$120 and \$2,650 a year to reimburse yourself for eligible out-of-pocket health care expenses. Eligible out-of-pocket expenses may include: deductibles, copayments or coinsurance not reimbursed by any medical, dental, vision or prescription insurance plans for you and your family. A complete list of eligible out-of-pocket expenses can be found at <https://www.irs.gov/publications/p502> .

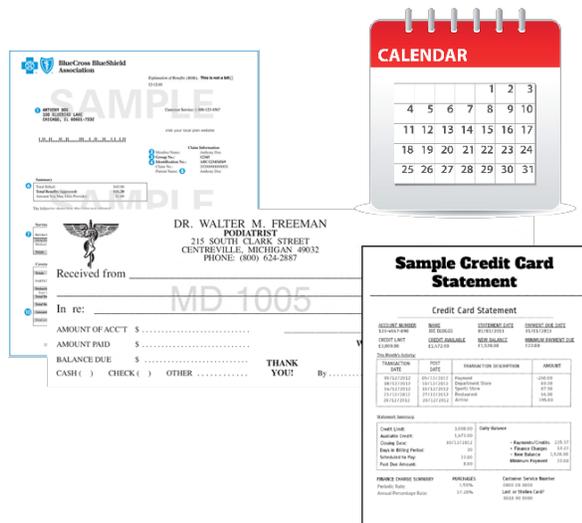
Dependent Daycare Flexible Spending Accounts: You can set aside between \$120 and \$5,000 (if spouses are filing together) each year to reimburse yourself for eligible dependent care expenses. Dependent(s) are commonly children under age 13, but elder care, if the elder is living with you, may also be included. Childcare can cover actual daycare as well as some before-and-after school care, summer camps, and pre-school tuition. Elder care can include a housekeeper and in-home care services. A complete list of eligible dependent care expenses can be found at <https://www.irs.gov/publications/p503>.

How do I decide how much to put into a Healthcare FSA?

The draw-back to an FSA account is that with an FSA you either use your money by the end of the year or lose it. Calculating how much you want to put into the FSA account is very important. The following worksheets will help you organize your expenses and make your decision.

Use these worksheets to estimate the amount to put in your FSA so you have enough but don't go over because you will not be able to get the money back.

Before you begin, gather last year's records of medical visits, receipts, credit cards statements, and explanation of benefits forms. With this information you can fill in the blanks on the *Estimating Medical Expenses* worksheet. You should also include any anticipated changes from last year, such as needing a surgery or a change in your medical situation that will require more or less doctor visits.



Estimating Medical Expenses For Healthcare FSA

<i>Annual One-Time Medical Expenses</i>	<i>Costs</i>	<i>Visits</i>	<i>Total</i>
Annual Deductible			
Medical Supplies and Equipment			
Hospitalization Expenses			
Vision Services (glasses, contacts, etc.)			
Dental Services (braces, oral surgery, etc.)			
Total Annual One Time medical expenses			
<i>Annual Copayment Medical Expenses</i>	<i>Costs</i>	<i>Visits</i>	<i>Total</i>
Primary Care			
Specialist			
Chiropractor			
Vision Exams			
Dental preventive visits			
Drug and Prescription Expenses			
Emergency Room/Urgent Care			
Total Annual Copayment Medical Expenses			

Total Annual One-Time and Copayment Medical Expenses _____

Now that you have totaled your one-time and copayment medical expenses for the year, you need to decide if you will likely be spending the same amount for the same services this next year.

Finally, you need to decide on the amount of money you want taken from your pay-check for a Healthcare FSA. This will vary depending upon how often you receive your paycheck. You can determine this amount using the worksheet to the right.

Estimating Deductions for Healthcare FSA

Total Annual One-time Medical Expenses and Copayments	
Total Expenses ÷ 12 = (Monthly deduction)	
Total Expenses ÷ 24 = (Biweekly deductions)	
Total Expenses ÷ 20 = (22- pay Faculty deductions)	

How do I decide how much to put into a Dependent Daycare FSA?

Calculating dependent care expenses can vary depending upon the frequency of the care provided. For example, a day camp may have a one-time fee and the before/after school care will only occur during the school year. Coming up with a good estimate can be done by reviewing the amount of money you spent on eligible dependent daycare expenses last year. Use the worksheet below to determine your total dependent daycare costs.

Estimating Deductions for Dependent Daycare FSA

Use the following worksheet to determine the amount of money you want taken from your paycheck for a Dependent Daycare FSA. This will vary depending upon how often you receive your paycheck.

Total Annual Dependent Daycare Expenses	
Total Expenses ÷ 12 = (Monthly deduction)	
Total Expenses ÷ 24 = (Biweekly deduction)	
Total Expenses ÷ 20 = (22- pay Faculty deduction)	

Dependent Daycare Activity	Annual Cost
Day Camp	
Nursery School	
Private Daycare	
Before/After School Care	
Care for incapacitated adult	
Housekeeper caring for an eligible dependent	
Total Dependent Care Costs	

You will need this information when you establish your flexible spending account during the open enrollment period or when you are newly hired.

Remember that you must enroll separately for a Healthcare Flexible Spending Account and a Dependent Daycare Flexible Spending Account.

How do I sign up for the FSA?

Now that you have totaled your expenses, you need to sign up. There are two ways to sign up; 1) Upon being hired and 2) During open enrollment.

When you are hired, you may not need an FSA. However, during employment, we all go through life changes – so keep in mind that you can always change your enrollment status into an FSA during the annual open enrollment period.

More information about enrollment can be found in the **Guide to Your Health Benefits** booklet available at <https://dbm.maryland.gov/benefits/Documents/CY19%20Benefits%20Guide.pdf>

Open enrollment is October through November. For exact dates be sure to check the University of Maryland Human Resources (HR) page <https://uhr.umd.edu/benefits/> or give HR a call at 301.405.5654.

If you are a State of Maryland employee you can check <https://dbm.maryland.gov/benefits> or call 410.767.4765.

Additional information on University of Maryland FSAs can be found at <https://uhr.umd.edu/benefits/flexible-spending>.

For State of Maryland employees, learn more at <http://www.dbm.maryland.gov/benefits/Pages/FlexibleSpending.aspx>.

After you enroll, you will receive an *Open Enrollment Benefits Statement*. Be sure to review this document to ensure the amount listed coincides with your request.

How do I get reimbursed?

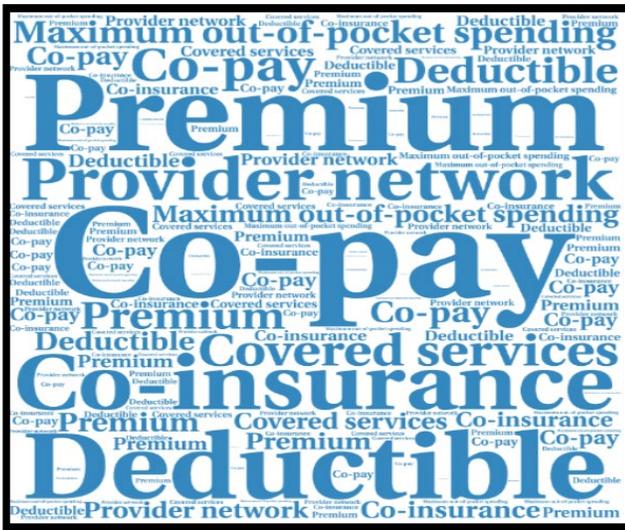
After you are enrolled in the Healthcare FSA you will be issued a debit card to pay for eligible healthcare expenses. If you cannot use the debit card you may submit receipts for reimbursement. Debit cards are more convenient as you have no out-of-pocket costs. Be sure to keep your receipts as you may be asked to provide documentation. Reimbursements can be done online or by paper. Receipts are necessary to submit a reimbursement claim.

After you are enrolled in the Dependent Daycare FSA you must submit requests for reimbursement either online or using a paper claim form.

There is a built-in grace period for the Healthcare FSA. You will have until March 15, 2020 to incur eligible expenses for your 2019 Healthcare FSA. You have until December 31, 2019 to incur eligible expenses for your 2019 Dependent Daycare FSA. You must use all of your FSA funds by these dates or you lose any remaining money in the account. For both the Healthcare FSA and the Dependent Daycare FSA, you will have until April 15, 2020 to submit reimbursement claims for eligible expenses.

Conclusions

Taking advantage of an FSA account may be another great way for you to prepare for healthcare and dependent daycare expenses as well as save on taxes. Use this fact sheet to organize your expenses and then call your Human Resources department to learn about the next open enrollment period or to set up a meeting to fill out your new-hire paperwork. You can take charge of your situation today!



Health Insurance Important Words to Know

Coinsurance - Your part of the costs of a covered service. This is a part of the allowed amount for the service. You pay this amount once you have met your deductible.

Copayment - A set amount (for example, \$20) you pay for a covered service. You pay this amount when you get the service. The amount you pay may change based on the type of service.

Deductible - The amount you owe for health care services your health insurance plan covers before your health insurance plan begins to pay. For example, if your deductible is \$1,000, your plan won't pay anything until you've met your \$1,000 deductible for covered health care services. The deductible may not apply to all services; especially preventive services.

Explanation of Benefits (EOB) - A letter from an insurance company showing what treatments and/or services were paid for. It includes the service performed, the provider's name, the patient's name, the fee, how much the insurer allows, and how much the patient must pay.

Flexible Spending Account (FSA) - A benefit option that allows employees to contribute tax-free money from their pay to an account that can be used for reimbursement of eligible healthcare and/or dependent care expenses. These arrangements are regulated by federal law.

Grace Period - You generally must use the money in an FSA within the plan year. But your employer may offer one of 2 options: It can provide a "grace period" of up to 2 ½ extra months to use the money in your FSA. OR It can allow you to carry over up to \$500 per year to use in the following year. Your employer can offer either one of these options but not both. It's not required to offer either one. At the end of the year or grace period, you lose any money left over in your FSA. So it's important to plan carefully and not put more money in your FSA than you think you'll spend within a year on things like copayments, coinsurance, drugs, and other allowed health care costs.

Out-of-Pocket Costs - Your costs for services that are not paid by insurance. This includes deductibles, coinsurance and copayments. It also includes costs for services that are not covered by your health insurance plan.

Reliable Resources from the Internet

Smart Choice - Smart Use Health Insurance Insuring your Health

<http://extension.umd.edu/insure/>

Helping You Make a Good Guess for out-of-pocket expenses

Marketplace Health Insurance Fact Sheet

My Smart Choice and Smart Use Spending Plan

My Smart Choice Workbook

Saving for Health and Medical Expenses

Understanding and Estimating Health Care Expenses

<http://extension/umd.edu/insure/consumer-resources>

Maryland Department of Budget and Management

Health Benefits

<https://dbm.maryland.gov/benefits/pages/default.aspx>

Flexible Spending Accounts

<https://dbm.maryland.gov/benefits/Pages/FlexibleSpending.aspx>

2019 Benefits Guide

<https://dbm.maryland.gov/benefits/Documents/CY19%20Benefits%20Guide.pdf>

Internal Revenue Service (IRS)

Publication 502, Medical and Dental Expenses

<https://www.irs.gov/publications/p502>

University of Maryland, Human Resources

Flexible Spending

<https://uhr.umd.edu/benefits/flexible-spending/>

ⁱ US Health and Human Services, 2015 Retrieved from <https://aspe.hhs.gov/system/files/pdf/75441/report.pdf>

ⁱⁱ Care.com, 2018 Retrieved from <https://investors.care.com/investors/Press-Releases/Press-Release-Details/2017/Nearly-1-in-3-Families-Spend-At-Least-20-of-Household-Income-on-Child-Care/default.aspx>.

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