# Health Flexible Spending Accounts

A health plan where a participant makes a pre-tax salary reduction election to reimburse qualified medical expenses of an employee and their dependents.

### Who is eligible?

Employers have flexibility when designing eligibility requirements. However, once established, those requirements should be reflected in the plan documents, and is subject to 105(h) and 125 nondiscrimination rules.

### Who can contribute to an individual's FSA?

Employers and Employees.

### How much can be contributed to an FSA?

For 2026, employees may contribute up to $3,400 including any employer contributions, if applicable.

### What are the benefits of an FSA?

- No federal income tax or employment tax on contributions.
- Tax-free distributions for qualified medical expenses.
- Maximum amount of reimbursement from the health FSA is available for claims incurred on first day of coverage.

### Can employees carry over FSA funds from year to year?

Generally, no, but employers may choose to do one of the following:

- Allow employees to carry over up to $680 in unused funds for plan years beginning in 2026 to use the following plan year; or
- Provide a "grace period" of 2.5 months after the end of the plan year for employees to use the money in the account.

### What expenses can FSA funds be used to pay?

Expenses specified by the plan that generally qualify for the medical and dental expenses tax deduction, but not health insurance premiums.

### Is an FSA portable for an employee?

No.

### Is an FSA subject to COBRA?

Yes, if there are funds at the time of termination but may be provided on a limited basis.

### Can employers offer to contribute to an FSA without also offering a group health plan?

No.

### What FSA requirements must an employer satisfy?

An employer must:

1. Have a written plan document.
2. Distribute a summary plan description (SPD) within 90 days of when employees start participating in the plan.
3. Offer the health FSA as part of a Section 125 cafeteria plan.
4. Offer employees traditional group health insurance.
5. If making contributions, meet the section 105(h) and 125 nondiscrimination rules.
6. Comply with the IRS' rules on mid-year election changes.
7. Set the maximum benefit amount for each employee so that it does not exceed:
   - Two times the employee's health FSA salary reduction election for the year: or
   - If greater, $500 plus the amount of the employee's health FSA salary reduction election for the year.
8. Pay PCOR fees by July 31st, if applicable.
9. Substantiate all reimbursement claims.

### Additional facts about FSAs

- Individuals are limited to a maximum contribution per year per employer. A married couple can each contribute the maximum amount to each individual's own FSA account.
- At the end of the plan year or grace period, unused funds are lost to the employee.
- Employees should only put money in the FSA that they think they will spend within a year on things like copayments, coinsurance, drugs and other allowed health care costs allowed within the plan rules.
- Employers should utilize a Third-Party Administrator to administer the plan and approve claim substantiations in order to avoid any privacy exposure to members under HIPAA regulations.
- In general, an employee cannot have a health FSA and a health savings account at the same time unless it is a limited purpose FSA.
- FSAs are subject to ERISA, COBRA, and HIPAA Privacy & Security requirements.