



Know Your Benefits

Limited-purpose FSAs

If you are reading this article, your employer has a limited-purpose flexible spending account (FSA) option. Limited-purpose FSAs can be a great addition to a health coverage plan. Before you decide if a limited-purpose FSA is right for you, you need to know how this type of health plan works.

What is a limited-purpose FSA?

A limited-purpose health flexible spending account, also called a limited purpose FSA, is similar to a general-purpose health FSA—the difference being that there are less eligible expenses.

What are the advantages of a limited-purpose FSA?

The main advantage of FSA funds is that you can pay for qualifying medical expenses tax-free while reducing your taxable income.

You are not allowed to contribute to both a health savings account (HSA) as well as a standard (non-limited) health FSA—you are, however, eligible for an HSA if you use a limited-purpose FSA for your dental and vision care needs. This will allow you to maximize your savings and tax benefits.

Ask your employer if it is possible to get reimbursed for standard FSA-qualified health care expenses by meeting your deductible. Your limited health care FSA would then work like a standard health care FSA and may not be limited to dental, vision or preventive care. A post-deductible FSA is eligible for combination with an HSA.

What are the disadvantages of a limited-purpose FSA?

FSAs employ a “use-it-or-lose-it” model. If you do not use the funds that you contribute to your limited-purpose FSA within the end of the year, you will have to forfeit those funds. However, employers also have the option of allowing employees to carry over up to \$550* of unused funds from one year to the next beginning in 2021. In addition, any amount that is carried over does not count toward the maximum contribution limit.

Also in a limited-purpose FSA, your covered health care procedures are limited to dental, vision and preventative care.

There are contribution limits to FSAs. The contribution limit for taxable years beginning in 2021 is \$2,750.

There is also no “double-dipping”, meaning that you are unable to pay for a medical procedure using your FSA as well as an additional plan or program, such as an HSA.

**Temporarily, the Consolidated Appropriations Act of 2021 permits employees to carry over unused amounts exceeding \$550 remaining in these FSAs to the next plan year for plan years ending in 2020 and 2021.*

Is a limited-purpose FSA right for me?

If you have planned future dental or vision expenses, limited-purpose FSAs make a lot of sense, especially when used in conjunction with an HSA.

If you think you will have little to no dental or vision expenses in the plan year, a limited-purpose FSA is a risky investment as you will lose the funds you do not use within the year.