

# What is a flexible spending account?

An FSA (or flexible spending account) is an employer-sponsored healthcare benefit that allows employees to set aside up to \$2,750 (2021) annually to cover the cost of qualified medical expenses. It's a lot like a savings account but used for qualified health-related costs. FSAs work on an annual plan year basis and are funded through regular payroll deductions on a pre-tax basis.

These funds are subject to a [use-it-or-lose-it](#) rule, which means that any funds that are unspent by the end of each plan year are [forfeited to the account holder's employer](#). Meaning you lose all of your money if you missed the deadline for spending so always keep track (hint: we have [deadline reminders](#)). But some accounts might have a lifeline as employers have the option of offering one of two [deadline extensions](#): the FSA grace period or the \$500 rollover.

Quick overview: The FSA grace period gives account holders up to 2.5 months after the end of their plan year to spend their remaining FSA dollars, while the \$550 rollover allows employees to move up to \$550 into next year's account. Learn more about that [here](#). Not a bad deal, if your plan has one of these options!

But not all plans have them. To be 100% sure about when you need to use your money, ask your HR department to give you more specifics about the plan.

## What are the benefits of a flexible spending account?

The key benefit of an FSA is that it withholds a portion of your taxable income, which is deposited tax-free into an account you can use to cover thousands of qualified medical expenses. Again, like a savings account only more... flexible.

For instance, a household making the median U.S. household income of \$68,703 who elected the full FSA contribution for 2021 (\$2,750), would save about \$1,000 in payroll taxes over the course of the year.

These tax-free funds can help you cover thousands of expenses you would usually pay for out-of-pocket - but not just the account holder, you can also cover medical expenses for you, your spouse and qualifying dependents (children up to age 26 and adult dependents listed on your tax return).

But where FSAs really shine is in their ability to cover thousands of medical products and services...

## What can I use my flexible spending account for?

Short answer? A wide (and growing) selection of health and wellness products -- ranging from things you probably use everyday, to highly specific diagnostic and treatment products. [Pain relief](#) products, [baby health care](#) essentials, [healthy travel](#) must-haves, you name it; if there's a medical need you have, chances are there's some way you can benefit from an FSA.

Our comprehensive [Eligibility List](#) is a great place to learn exactly what is (and isn't) FSA-eligible.

## What makes a product or service FSA-eligible?

Let's get a little technical here. The Internal Revenue Service (IRS) ultimately holds control over which products and services fall under the definition of "medical care." This explanation has the catchy title of [IRS Tax Code 213\(d\)](#). But for our purposes, just know this:

**"The term "medical care" means amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body."**

Alright, so now that the official definition is out there, let's cut to the core of what makes a product or service fall into that definition. With 4,000+ eligible products at our sites alone, there's obviously too many to list here ([but not here!](#)) so for a quick overview, FSA funds can be used for:

- Prescription medicines
- Doctor's co-payments and specialist visits
- Prescription [eyeglasses](#) or [contact lenses](#)
- Over-the-counter medicines and health products
- Menstrual care products
- [First aid](#) supplies
- Dental/vision expenses
- Medical diagnostic products
- Home health care items

## Is a flexible spending account worth it?

Today, managing an FSA is easier than ever. Most accounts provide online benefits portals to handle every aspect of [account management](#), offer [FSA cards](#) to cover qualified health expenses at the point of sale, and can cover thousands of eligible medical products and services. Plus, these accounts can have a real impact on your financial bottom line: a family making the median U.S. income (\$59,000/year) that elects the full FSA contribution for 2021 (\$2,750) will save nearly \$1,000 in federal taxes each year.

If you're interested in [FSA enrollment](#) or upping your FSA management game, FSAstore.com can help you every step of the way. Whether you need to shop our selection of more than 4,000 eligible products, look up a product/service eligibility or searching for the latest industry news, our resources have you covered.

Did you know there are different types of Flexible Spending Accounts? Most people are aware of a Health Care FSA (also known as "General Purpose" or "Wide Open" FSAs), but you might like to know about other types of FSAs.

## Dependent Care FSA

Aside from Health Care FSAs, there is also a Dependent Care FSA. The [Dependent Care FSA](#), or DCAP or DCA, allows employees to set aside tax-free money toward dependent care costs. These costs could be toward daycare, care for elderly or disabled tax dependents, or toward before and after school care, to name a few. In order to qualify for a Dependent Care FSA, you and your spouse must be employed, searching for work, or attending school full-time. You can contribute \$5,000 per household or \$2,500 if married, filing separately, for a Dependent Care FSA. Dependents include children up to age 13 or your tax-dependent spouse or qualifying child or relative who is incapable of self-care (mentally or physically).

# Limited Purpose FSA

A Limited Purpose FSA is a type of FSA that only covers certain expenses that typically include vision, dental, or OTC dental and vision products. The employer limits the available expenses. A [Limited Purpose FSA](#) is often designed to be compatible with a Health Savings Account.