



Flexible Spending Accounts benefits are myriad

Aaron Skloff's February IT'S YOUR BUSINESS column

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Q: My company is considering instituting a Flexible Spending Account benefit. While it sounds good, what are the strengths and weaknesses of a FSA? Are there any special benefits to New Jersey residents?

The problem: Determining if an FSA is beneficial.

New Jersey ranks in the top 30 percent most expensive states in the U.S. for healthcare costs. Healthcare costs are rising 8 to 10 percent per year here and are likely to grow at two to three times the rate of inflation for the foreseeable future.

New Jersey ranks in the top 20 percent most expensive states for child care for pre-schoolers. Employers are shifting more child care, healthcare and insurance costs to the employees — forcing employees to evaluate FSA's.

The solution: A flexible spending account.

Imagine getting over a 40 percent discount on your healthcare and child care costs. That is essentially what an FSA provides.

Contributions to an FSA are made on a pretax basis and can be used to pay for unreimbursed medical and dependent day care costs. Contributions avoid both federal income taxes, top rate 35 percent, and the Federal Insurance Contributions Act (FICA) tax of 7.65 percent.

Employers also avoid paying FICA taxes on employee contributions. The wonderful state of New Jersey is one of the only states that assess a state income tax on FSA contributions.

Unreimbursed medical costs.

There are a wide range of items covered, including: prescribed and over-the-counter medication, eyeglasses and contact lenses, crutches and hearing aids, and nicotine patches.

We all know we should visit the dentist twice a year for a checkup. Unfortunately, many employers offer modest dental insurance plans, leaving employees with large out of pocket costs. Many dental insurance plans have \$1,000 or \$2,000 family limits and cover only "reasonable and customary" charges. In New Jersey, that could leave you paying \$600 for a \$1,000 procedure.

Dental examinations, cleanings and fillings are all covered medical costs through an FSA. While paying \$600 out of pocket for a dental procedure is not easy to swallow, at least getting a 40 percent discount is palatable.

Often overlooked FSA items include: insurance co-payments and deductibles, in vitro fertilization, and physician-prescribed weight loss programs. There is no federal limit on contributions to FSAs for unreimbursed medical costs.

Dependent day care costs.

Two groups of dependents are permitted under dependent day care: 1) a dependent age 12 or under who entitles you to a personal tax exemption and, 2) a spouse or other dependent who is physically or mentally unable to care for herself/himself. Qualifying expenses include: care outside of the home, dependent care center and payments to relatives, as long as they are not your dependent.

One often overlooked FSA item is summer day camp that is primarily custodial versus educational. The federal limit on contributions to FSAs for dependent day care costs is \$5,000 per year.

Use it or lose it.

Take the time to determine the qualifying expenses you expect to incur throughout the year when establishing your contribution amount. Over-estimate and your unused contributions will be forfeited if you do not utilize them by the end of your employer's plan year. Even if it means running out to the pharmacy on New Years Eve to stock up on aspirin, do not let your hard earned money go to waste.

Although, with a change in laws, starting in 2005 some employer plans allow for purchases through March 15 of the following year.

Action steps: Utilize your FSA.

If your employer offers an FSA, take the time to estimate your unreimbursed medical and dependent day care costs and contribute to your FSA. If your employer does not offer an FSA encourage them to consider one. Not only will it be viewed as a valuable benefit to attract and retain employees, but it can also save the employer taxes.

The government realizes healthcare and dependent care costs are skyrocketing. Thus, it has essentially giving taxpayers a gift in the form of an FSA. Do not look a gift horse in the mouth.

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