



Should you offer an FSA?

What is an FSA? An FSA is an employer-sponsored benefit that allows employees to set aside pre-tax dollars from their paycheck to pay for eligible healthcare or dependent care expenses. There are three main types of FSAs: Healthcare FSA, Dependent Care FSA, and Limited Purpose FSA.

Healthcare FSA: A healthcare FSA is used to pay for eligible medical, dental, and vision expenses that are not covered by insurance. The annual contribution limit for 2023 is \$2,850 per employee. Up to \$610 of unused funds may be carried over to the next plan year, depending on the employer's plan design.

Dependent Care FSA: A Dependent Care FSA is used to pay for eligible dependent care expenses such as daycare, preschool, and after-school care. The annual contribution limit for 2023 is \$5,000 per family. Funds must be used within the plan year or will be forfeited. Unlike health FSAs, Dependent Care FSAs cannot have carryover, only a grace period and run-out period.

Limited Purpose FSA: A Limited Purpose FSA is used to pay for eligible dental and vision expenses that are not covered by insurance when combined with an HSA. The benefit of having a limited purpose FSA is that when a participant transitions to a Health Savings Account (HSA), they can carry over funds to the limited purpose FSA.

Financial Benefits for Employers: Employers can save money on payroll taxes by offering an FSA. For example, if a company has 100 participants with an average contribution of \$1,900, the total pre-tax contributions would be \$190,000. The employer would not have to pay FICA taxes of 7.65% on this amount, saving them \$14,535 in payroll taxes. Additionally, approximately 3 to 5% of the contributions remain unused from turnover and stay with the employer, that is an additional savings of \$9,500.

FSA's are an added benefit that helps employees save on taxes and employers drive revenue to the bottom line while offering more robust benefits to attract and retain employees. If you like the sound of that, send us a message or talk to your broker!

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