

# alex<sup>®</sup> Pre-Tax Spending

## SAVING MONEY ON HEALTH CARE COSTS

### Eligible expenses

You can generally spend money in an FSA or HSA on doctor visits, prescriptions, over-the-counter medications (only if you have a prescription from a doctor), bandages, contact lens solution, pregnancy tests, chiropractor visits, LASIK eye surgery, acupuncture, dental expenses, prescription eyeglasses, and many other health care expenses. An LFSA can only be used for dental and vision expenses. See [IRS publication 502](#)

[\[http://www.irs.gov/pub/irs-pdf/p502.pdf\]](http://www.irs.gov/pub/irs-pdf/p502.pdf) for a complete list.

## HSA DETAILS

### HSA contribution limit

The HSA contribution limit is set by the IRS for contributions per calendar year from any source—you or Wespath. There is no limit to your total balance. You can actually use it to invest for future expenses.

#### 2020 HSA limits:

- When covering only yourself: **\$3,550**
- When covering your family (you plus your spouse and/or child (ren)): **\$7,100**
- Catch-up contribution for those 55 or older: **\$1,000**

### Do I qualify for an HSA?

To qualify for an HSA:

- You can't be claimed as a dependent on someone's taxes.
- You can't be enrolled in Medicare.
- You can't be covered by any other medical plan (like a spouse's plan) unless that plan also works with an HSA.
- Your spouse can't have a health care FSA; because money in that FSA could be used toward your medical expenses, it

would actually count as other medical coverage. (A limited FSA that only covers dental and vision expenses would be allowed.)

See [IRS publication 969 \[http://www.irs.gov/pub/irs-pdf/p969.pdf\]](http://www.irs.gov/pub/irs-pdf/p969.pdf) for more detail.

## What if I have an HSA plan for only part of the calendar year?

The contribution limit is set by the IRS each calendar year, and is generally prorated. So if your limit were **\$3,550** for the year, but you enrolled in an HSA-eligible medical plan for exactly half of the year, the prorated amount would be **\$1,775**.

That said, if you join an HSA-eligible plan partway through the year, you can contribute the full annual allotment for that year, assuming you remain eligible for HSA contributions through the entire next calendar year. For example, if you joined a plan midway through 2020, you could contribute **\$3,550** in 2020, assuming you remain eligible for HSA contributions through all of the next year. If you were to stop being eligible for HSA contributions during the next year, you would need to pay income tax plus a penalty on your 2020 HSA contributions that exceeded the prorated amount.

Sound complicated? It is. Since you may not know your plans for next year yet, one way to keep it simple is to just contribute the prorated amount.

## Whose expenses are eligible?

According to federal regulations, HSA funds may only be used for the expenses of "eligible tax dependents." If you have anyone who is not an eligible tax dependent, such as a domestic partner or a child too old to be claimed as a dependent on your taxes, do not plan to cover their expenses with funds from your pre-tax account.

## **Investing in your HSA for medical expenses**

Your HSA can be used for your medical expenses this year, or you could save your money for future years. Why would you want to save money in your HSA rather than in a regular bank account? Well, money in your HSA is never subject to federal taxes, so long as you use it for medical expenses. (That's an even better tax deal than a 401(k), which is either taxed when you take it out or when you put it in.) Given how much health care costs are rising, it may make sense to save money in your HSA, since you're probably going to need expensive health care at some point in your life.

## **Investing in your HSA for retirement**

You can also use your HSA to save for retirement. Once you reach age 65, you can withdraw money to spend on anything (not just medical costs). You will pay income tax on this money, but there's no withdrawal penalty. Overall, the tax benefits in this situation are similar to what you would get in a traditional IRA or 401(k). The big difference? You can withdraw money at any age to spend on medical costs.

## **Your HSA and tax benefits**

To get the tax benefits from an HSA, you must complete the appropriate form (IRS form 8889).

## **Withdrawal penalties for your HSA**

As long as you spend money on eligible health care expenses, there are no federal taxes to pay. But suppose you end up in financial trouble, and really need to take some money out. Well, then you'd have to pay income tax on your withdrawal, plus a 20% penalty. Ouch. Exceptions: if you're 65 or older, or disabled, then you can withdraw money and pay only regular income tax—no additional penalties apply.

## **Can I use my HSA for premiums?**

Generally, only if you're unemployed. Then you can use HSA funds to cover medical insurance premiums—yet another reason to contribute extra now if you can!

## **What if I have leftover HSA money and change medical plans or jobs?**

Any money you put in your HSA is yours to keep (assuming you obey the annual contribution limits). You do not need to stay enrolled in an HSA medical plan or stay at your employer in order to spend your HSA money. If you change to a new medical plan that does not have an HSA associated with it, you can still spend your old HSA money on eligible expenses.

## **How does this affect federal income taxes?**

You should report all contributions to and distributions from your HSA in form 8889 when you file your federal income taxes.

## **Which is better, an HSA or an FSA?**

It depends, but generally an HSA offers more advantages: the money is yours to keep forever, you don't pay taxes on any interest earned, and you can spend the money in retirement for anything (as long as you're 65 or older).

## **Tricky HSA things**

If each spouse has a separate health plan that qualifies for an HSA, you can each contribute up to the individual limit to your respective HSA accounts. However, if one spouse is covering the kids, then the family limit is your combined limit. (For example, you each may contribute half the family limit.)

## **FSA DETAILS**

## FSA limits

FSA contribution minimum: **\$300**.

FSA contribution maximum: **\$2,700**.

FSA rollover amount: **\$500**.

## FSA planning

If you have very significant expenses planned, such as orthodontia, be very careful in planning out which year these expenses will fall under.

## What if I overestimate my expenses?

Your FSA allows you to roll over up to **\$500** to the following year, but anything more than that must be spent by December 31, 2020, or you lose it. If you overestimate your expenses and will have more than you can roll over left in your FSA, you may want to:

- Order an extra pair of glasses or contacts
- Schedule surgery or any expensive medical care this year rather than next
- Shop for over-the-counter items that do not require a prescription (see the "Eligible expenses" section at the top for ideas)

## Whose expenses are eligible?

You can use your FSA to cover expenses for a spouse, any kids (as long as they're under 27 for the entire tax year), or anyone you can claim as a dependent on your taxes.

## FSA deadlines

You can use your FSA for any eligible expenses that you incur by December 31, 2020. You have until March 15, 2021 to finish filing any claims.

## Contacting your FSA administrator

Your FSA administrator is **WageWorks**, and here's how you can reach them:

877-924-3967 or <https://www.webmdhealth.com/gbophb/>  
[\[https://www.webmdhealth.com/gbophb/\]](https://www.webmdhealth.com/gbophb/)

Click Health Accounts – WageWorks under My HealthFlex Benefits to access FSA vendor information.

## SAVING MONEY ON DEPENDENT CARE

### What's a dependent care FSA?

It's an account you can use to save on expenses for childcare or dependent care.

### Why use it?

You don't pay federal taxes on those expenses, which could save you about 20–30%, depending on your tax bracket.

### How much can I contribute?

The most you can contribute to this account is **\$5,000** per year. Note that this max is for your entire household, so be sure to coordinate with your spouse.

This account also requires a minimum contribution of **\$300** per year.

### What expenses are eligible?

If you spend money to care for an eligible dependent so that you and your spouse can work or attend school, you may benefit from a dependent care FSA. Adoption costs aren't eligible.

For more information about the dependent care FSA, see **IRS publication 503** [<http://www.irs.gov/pub/irs-pdf/p503.pdf>] .

## Is my child eligible?

To be eligible, generally your child must be 12 or younger and claimed as a dependent on your taxes.

## I have a dependent who isn't my child but requires paid care. Are those expenses eligible?

To qualify, the dependent must:

- Live with you for more than half of the year
- Be physically or mentally incapable of self-care
- Be a spouse or tax dependent
- Spend at least eight hours a day in your home

## Who can the caregiver be?

This could be a babysitter, nanny, or adult caregiver. You could also use a nursery school or a day care center for children or adults. Just keep in mind that the caregiver cannot be someone you claim as a dependent.

## Dependent care FSA deadline

You can use your dependent care FSA for any eligible expenses that you incur by December 31, 2020. You have until March 15, 2021 to finish filing any claims.

## MORE INFO ABOUT PRE-TAX SPENDING

### A special message from Wespath

The **Limited Purpose FSA** can only be used for medical expenses once you've reached the **IRS minimum deductible**.