Determining My FSA Election Amount

Planning your election: Tips and tricks to guide how much money you should put in your account.

The basic premise:

Flexible spending accounts (FSAs) were created to help people save and pay for healthcare in a tax-protected manner. Simply stated, every dollar you put into an FSA is worth more (up to 30% more!), because you don't get taxed on the money you put in – and, your IRS-reportable income is decreased by however much you contribute. The phrase "free money" comes to mind for many.

The reality of the situation is this: If you'll have any out-of-pocket healthcare costs next year, you really should have an FSA. It's rarely a matter of should you enroll, but rather how much should you contribute to your FSA. Because you'll lose any unused funds eventually, you want to be as accurate as possible in planning and calculating your election[*].

The perfect election is one that you use in full.

Planning and calculating your election:

While many election planner calculators exist to help you better understand your individual healthcare and financial situation, there are some important things you should understand and consider – because deciding how much money to put into your FSA isn't always a perfect science:

1. **How much did you spend on healthcare last year?** If last year was a normal healthcare year for your family, consider funding up to the lower of the two figures: (1) last year's total spend, or (2) the IRS limit of $2,750. If you're going to spend, get the maximum tax savings.
2. To the best of your ability, **predict the health expenses your family will incur** next year and the costs of these expenses. Add up all your prescriptions, doctor visits, surgeries, orthodontia, and other anticipated costs. The sum of these costs can be a great minimum starting point for your election. At a minimum, contribute what you know you'll spend for certain.
3. **What's your deductible?** If you're not sure what you'll spend, putting enough money in your FSA to cover your deductible is a great strategy. If you're someone who typically reaches your deductible, you might as well reap the tax benefits of using your FSA to pay for it. If you don't typically reach your deductible, this strategy can be more difficult.
4. **What will you do with 'extra' funds?** If you find yourself half-way through the plan year having used less than planned, have a back-up plan. There are several great ways to leverage FSA funds, like: Family planning, eye care, contact solution, acupuncture, sun block, and more.
5. Arguably the hardest part of healthcare budgeting is **planning for the unexpected.** If you're typically a high healthcare user, it will probably benefit you to increase your election by adding some 'buffer funds' on top of what you know you'll spend. If you're generally healthy and a relatively low healthcare user, you may consider forgoing additional wiggle room

The bottom line

If there was a way to perfectly predict your healthcare spending, you wouldn't be reading this. But, budgeting your healthcare finances can be downright challenging. The good news:

- FSAs give you a little tax-protected help to save on healthcare expenses
- Our election planning calculator helps you run different election/spending scenarios to help your decision making
- If you over-fund your FSA, there are many every-day items you can purchase with your FSA. It's better to over-fund then under-fund and miss the tax savings altogether.

Many people fail to realize the tax savings they can realize from funding an FSA – do your homework, use these tips predict your spending, and rest assured you're doing your best to save on healthcare.

[*] *Many FSA plans allow a 2 ½ month grace period to spend funds. Other FSA programs allow you to rollover up to $550 into next year's FSA.*