Flexible Spending Accounts Have Changed During COVID-19. Here's How

thepennyhoarder.com/save-money/fsa-pandemic/

October 13, 2020

by Tiffani Sherman

Contributor

Some people are finding their flexible spending accounts are anything but flexible during the COVID-19 pandemic.

Due to the pandemic, many people aren't sending their kids to daycare or spending money on qualified expenses like they had planned.

The money in their accounts is just sitting there, and that could be a problem.

"We had elected to put $5,000 in, which is the maximum contribution and that's our normal election," says Melissa Vernon, a married mother of a 9-year-old daughter in Oconomowoc, WI.

During a normal year, spending that money usually isn't a problem with school aftercare, summer camps and work obligations that require overnight travel.

"In a normal year, our January through early June aftercare would be about $900," she said. "We only incurred $378 this year."

By the time she and her husband were able to stop making contributions to their account, they had already contributed $2,826. Vernon was able to pay for a few small summer camps and the first few months of aftercare, but is left with a significant amount of money she cannot spend.

Options for Vernon and others in this predicament depend on the employer and the type of flexible spending account they have.

What is a Flexible Spending Account?

A flexible spending account, or FSA, is an account you can set up with your employer to set aside pre-tax dollars for specific expenses. They are sometimes called cafeteria plans.

Employers take money out of paychecks before taxes to fund the accounts, which are regulated by the IRS. A third party usually administers the accounts and handles reimbursements.

There are two kinds of FSAs:

- **HCFSA**: This is a healthcare FSA. Individuals can contribute up to $2,750 per year, which can be used to pay for a variety of expenses related to health and medical care.

- **DCFSA:** This is a dependent care FSA. Parents with children younger than 13 can contribute up to $2,500 individually or $5,000 if married, filing jointly. The money can pay for daycare, preschool, before- and after-school care and summer day camps.

Not all employers offer FSAs, but for those that do, there is an annual enrollment period when employees can decide whether to fund an account and how much to contribute. Employees cannot change the amount they contribute during the year unless there is a qualifying event such as the birth of a child or a change in marital status.

There is one major difference in how the two types of accounts are reimbursed.

In a HCFSA, all of the money you plan to contribute is available at the beginning of the year, meaning you do not need to wait until you have contributed the funds to use them. Basically, your company is fronting the money and relying on you to pay it back over the year.

For a DCFSA, you cannot use the money until you have put it in your account.

So, it's possible to use health care spending money to pay for a $2,500 dental procedure at the beginning of the year, even if you've only put a couple hundred dollars into the account.

In a DCFSA, if you pay $1,000 to reserve a summer camp at the beginning of the year, you must wait until you contribute $1,000 before getting reimbursed.

The money you put into any type of FSA is "use it or lose it," so if you don't spend it all on qualified expenses, you forfeit it and any unused money goes to the employer.

On the other hand, if an employee uses all the funds in an HCFSA then leaves the company mid-year, the employer is out that money.

What Has Happened in 2020?

The pandemic has made it difficult for some people to spend all of the money they have set aside in their FSAs, while others need more money than they planned for.

At the onset of the pandemic, many states required hospitals to stop non-essential procedures for a period of time. Schools closed, before- and after-school programs shut down and summer camps were canceled.

Many parents began working from home or lost jobs and no longer needed child care.

"By March, it became pretty clear that there was not going to be any after-care expenditures for the remainder of the school year, and then it became more apparent that there wasn't going to be a need to spend in the summer either as camps were getting cancelled," says Stephanie Laguna, a Rockville, MD mother of two children, who had elected to contribute about $2,500 for 2020 to a dependent care account.

Changes for 2020 FSAs

To help with some of these problems, the IRS made changes to FSAs as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act).

"It … has provided more flexibility in terms of allowing mid-year elections to FSA plans," said Yuletta Pringle, HR Knowledge Advisor at the Society for Human Resource Management. "We're seeing some employers allowing their employees to make changes."

The changes allow:

- **New accounts:** Establishing an FSA is possible outside of the usual enrollment period. Maybe you didn't need childcare before, but now you do. Maybe you have new health expenses you didn't before.
- **Contribution changes:** Increases or decreases to current contributions are allowed without a life-changing event.
- **Carryover:** For HCFSAs, carrying over $550 to 2021 is allowed.
- **Grace period:** For the plan year ending Dec. 31, 2020, it is possible to extend the period to incur new expenses and use money in the FSA.

In addition, more products are eligible for purchase with HCFSA funds, specifically feminie hygiene products and over-the-counter medicines.

Some employers may allow other changes. While that may help employees, it could put a burden on employers.

"Even in a regular year, an employer can lose because an employee can leave before the end of the year and they have already exhausted the funds in their account," Pringle said.

Laguna received an email from her employer telling her she could make changes to her contributions to her DCFSA.

"I pretty quickly went in to stop my contributions, but by the time that took effect … we had already contributed nearly half of what I was going to set aside for the year," she said. "By that point, it seemed pretty clear that there was no way I was going to be able to spend what I set aside."

In an HCFSA, this year the IRS allows a carryover of $550 for 90 days into the next plan year, which is usually March 15. There is no such allowance to carryover money for DCFSAs.

Again, that is an allowed benefit, not a guaranteed one.

"Here again, it's based on what the employer has allowed in terms of its carryover period," Pringle said.

What Can You Do About Your FSA?

So what can you do if you still have some extra money in your FSA?

There is still time to spend down HCFSA money. Stock up on eligible supplies. Get a new pair of glasses or stock up on contact lenses.

Companies could allow a grace period for both HCFSAs and DCFSAs, which would allow people a bit more time to spend the funds into 2021. But it is not possible to have both a carryover of funds AND a grace period. It's either one or the other.

Companies still have time to allow a change to both HCFSAs and DCFSAs. Pringle suggests reaching out to your company's HR department.

"Share your feedback about how the change in legislation would help (you) specifically," she said. "In general, (employers) are thinking of how they can help their employees through the pandemic."

Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.