



# 5 Common FSA Terms You Should Know

Flexible spending accounts (FSAs) provide you with a smart way to save money on healthcare and dependent care expenses (depending on the type of FSA you're enrolled in). When you participate in an FSA, you're putting money aside before it is taxed so you can save on eligible expenses. However, you may have a number of pre-tax accounts to choose from. And our recent survey found that half of all Americans have trouble understanding the difference among different health spending accounts. Before making your FSA election, here are five FSA definitions you should know.

## 1 Claim

In order to be reimbursed for an FSA-eligible purchase, you must submit a claim. You would then need to provide documentation of the FSA claim to prove that it was an eligible expense. Once you have done that, if your claim is approved, you will then be reimbursed for your purchase.

## Documentation

Documentation describes what you provide to prove that an expense is eligible for reimbursement with your FSA funds. For Medical FSAs, documentation should include:

- Date service was received or purchase was made
- Description of service or item purchased
- Dollar amount
- Provider or store name
- An Explanation of Benefits (EOB) typically contains the information required by the IRS.

## 3 Election

Your election is the amount of funds you choose to have available in your FSA during the plan year. Be aware that the IRS sets contribution limits for medical FSAs and dependent care FSAs. Your election will then be deducted from your employer's paycheck on a regular basis throughout the plan year.

## Grace period

If your employer's FSA has a grace period, then you have up to 2 ½ months past the plan year's end date to incur expenses. For example, if your FSA's plan year runs from January 1, 2023 through December 31, 2023 that means you would potentially have until March 15, 2024 to incur expenses for your FSA's 2023 plan year. Not all employers' FSA contains a grace period.

## 5 Use-or-lose rule

FSAs are governed by the IRS' use-or-lose rule, which states that any funds in an FSA must be spent by the end of the plan year or else be forfeited to the plan. However, if your employer's FSA includes a carryover or grace period, then you'll have additional flexibility to spend down your balance.



## FSA glossary

Term	Definition
Carryover, noun	The balance you can carry over from your FSA to the following plan year. Your employer (per IRS regulations) is allowed to offer a carryover. This amount is indexed for inflation. (\$610 carryover for 2023 to 2024)
Claim, noun	The act of submitting an eligible purchase for reimbursement of your FSA funds.
Documentation, noun	The document(s) you submit to prove that a purchase made is an FSA eligible expense.
Election, noun	The amount you elect to make available in your FSA during a plan year. This election will be deducted from your pay throughout the plan year before the funds are taxed.
Explanation of Benefits (EOB), noun	The type of documentation that typically has all of the information that the IRS requires in order for you to prove the eligibility for — or substantiate — an FSA claim.
Grace period, noun	The amount of time after a plan year has ended for you to incur expenses for the previous plan year. The IRS allows employers to provide a grace period of up to 2 ½ months.
Inventory Information Approval System (IIAS), noun	An IIAS automatically approves any FSA-eligible expenses purchased at merchants who have this system. No additional documentation is needed.
Run-out, noun	An extension past the last day of the plan year to give you more time to file for reimbursement of claims incurred during the plan year.
Substantiate, verb	The process of providing that a purchase is eligible for your FSA funds. This process may happen automatically, such as when you purchase FSA products at a merchant with an IIAS. It may also require you to file a claim and/or submit additional documentation.
Use-or-lose rule, noun	The IRS rule that states all FSA funds must be spent by the end of the plan year. If your FSA includes a grace period or carryover, then you have flexibility regarding this rule.