Why to consider: A limited purpose FSA

What is it?

A limited purpose flexible spending account (LP-FSA) lets you pay for eligible vision and dental services with tax-free money. LP-FSAs are designed to work alongside a health savings account (HSA) so you can preserve your HSA funds for other medical costs.

What can I spend funds on?

A LP-FSA covers qualified vision and dental expenses only, including dental/orthodontia expenses as well as vision services (i.e., eye exams, eyeglasses, contact lenses. A LP-FSA cannot be used for general health expenses such as health insurance copayments, coinsurance, or your deductible.

How does it work?

During open enrollment, you elect an annual contribution amount for the plan year (up to the IRS limit). Your election is divided evenly across your paychecks and deducted before taxes. Your full annual election is available on the first day of the plan year, so you can use funds for eligible vision and dental expenses right away without waiting for contributions to accumulate. Generally, you lose any funds you don't spend by the end of the plan year (though plans may allow a limited rollover or grace period).

What could I save?

Here is an illustration* of potential tax savings from a LP-FSA based on a hypothetical scenario:

	Without LP-FSA	With LP-FSA
Annual vision & dental costs	$1,500	$1,500
LP-FSA election	$0	$1,500
Est. tax savings (25% rate)	$0	$375
Effective cost	**$1,500**	**$1,125**

Can I change my election?

Your LP-FSA election can be changed during the plan year if you experience a qualifying life event. Any election update must be consistent with the life event and must be submitted within your plan's required timeframe. Examples of such life event may include:

- Change in employment status for you or your spouse (starting or stopping work)
- Change in work schedule (e.g., part-time to full-time)
- Birth, adoption, or death of a child
- Marriage, divorce, or death of spouse

*This calculation assumes an LP-FSA election of $1,500, a combined federal and state marginal tax rate of 25%, and that all elected funds are used for IRS-qualified vision and dental expenses. It is only an estimate and your individual tax savings will depend on your election amount, income, and tax rate amongst other factors.

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