HEALTH CARE BENEFITS

# HELP EMPLOYEES USE THEIR FSA FUNDS BEFORE YEAR-END

EMPLOYERS SHOULD remind their workers to check their flexible spending account balances before year-end or risk losing money set aside for health care expenses.

Workers forfeit more than $4 billion in unused FSA funds annually, according to *Money.com*. Research from the Employee Benefit Research Institute found that about 40% of FSA holders forfeited money in 2024, losing an average of $404 each.

With health care costs continuing to rise, employers can help their staff avoid unnecessary losses by educating them about eligible expenses and reminding them of approaching deadlines.

## How FSAs work

Health FSAs allow employees to set aside pretax earnings to pay for qualified medical expenses that are not covered by insurance. Contributions reduce taxable income, and employees can use the funds for eligible expenses incurred by themselves, their spouses and qualifying dependents.

Unlike health savings accounts, FSAs generally operate under a "use-it-or-lose-it" rule. In other words, employees must spend their funds during the plan year or forfeit the remaining balance.

However, employers can offer one of two options to provide additional flexibility:

- **Carryover.** For 2026, employers may allow employees to carry over up to $680 in unused funds into the following plan year.
- **Grace period.** Alternatively, employers may give employees an additional 2½ months to incur eligible expenses. For calendar-year plans, that means until March 15.

Employers cannot offer both options in the same health FSA and are not required to offer either.

## What the funds can pay for

Besides copayments, deductibles, prescription drugs, eyeglasses and contact lenses, employees may use their accounts for a surprising variety of everyday health products, including:

- Sunscreen with an SPF of 15 or higher that provides broad-spectrum protection.
- Acne treatments, bandages and first-aid supplies.
- Over-the-counter pain relievers, allergy medications and cold remedies.
- Menstrual care products and pregnancy tests.
- Breast pumps and certain breastfeeding supplies.
- Blood pressure monitors, thermometers and glucose-testing supplies.
- Orthopedic shoe inserts and certain braces.
- Prescription sunglasses and contact lens solution.

Some less conventional expenses, such as fitness equipment, health-monitoring devices and specialized meal programs, may qualify when used to treat a diagnosed medical condition and supported by appropriate documentation.

If unsure if an expense qualifies, employees should confirm eligibility with their FSA administrator before making purchases.

## What you can do

Employers can reduce forfeitures by making FSA education part of their regular benefits communications rather than waiting until December.

## How employers can help

- **Send reminders.** Use e-mails, employee newsletters, workplace messaging platforms and breakroom posters to highlight deadlines and encourage balance checks.
- **Share eligible expense lists.** Direct employees to their FSA administrator's resources or websites that identify qualifying products and services.
- **Tailor communications.** Highlight pregnancy and parenting expenses for growing families, menopause-related medical needs for older workers, heart-health monitoring products during American Heart Month in February, sunscreen during summer and cold remedies during flu season.
- **Explain reimbursement procedures.** Remind employees to submit outstanding claims and provide clear instructions on documentation and filing deadlines.
- **Encourage advance planning.** During open enrollment, help workers estimate how much in medical expenses they expect to incur in the upcoming year so they can choose appropriate contribution amounts.

The goal is to ensure employees understand the value of their FSA benefits and have enough information to use their funds wisely before deadlines arrive.

