<u>How Spending Accounts Are Going to Save Your Budget</u>

By TML Health

With cities' budgets getting tighter and healthcare rates expected to spike, it is likely this coming year many cities will need to adjust their current healthcare plan options to stay within budget. The first thing many employers may look to do is increase their deductibles, copays, or maximum out-of-pocket limits on the health plan.

With any of these changes, your employees need to spend more of their own money before their plan will start to share costs. Luckily, there is a way to help employees manage their out-of-pocket costs more affordably even if you need to increase deductibles: by offering Flexible Spending Accounts!

Flexible Spending Accounts allow your employees to set aside some of their income on a <u>pre-tax</u> basis to pay for medical, dental/vision expenses, and even some types of over-the-counter items like sunscreen, prenatal vitamins, and feminine hygiene products. There are also Dependent Care Accounts that employees can use to save for day care, after school care, or even summer camp for young children.

Putting aside money that they are already planning to spend on these services <u>pre-tax</u> stretches an employee's paycheck even further.

These simple, yet effective tools are not widely used. And even if an employer does offer a spending account, employee engagement may be low due to a lack of understanding in just how powerful this resource is. To help, here is a brief overview of some of the more popular options that can really boost a budget-friendly benefits package:

FLEXIBLE SPENDING ACCOUNT (FSA)
An FSA is perhaps one of the most basic spending accounts for medical expenses. Again, an employee can set aside a percentage of their paycheck pre-tax to specifically pay for eligible health care costs like deductibles, copays, and other out-of-pocket expenses.

The 2023 IRS limit for a Flexible Spending Account is $3,050. This can help families plan and pay for significant expenses (*like if your child needs braces*). For example, a typical employee in the 22% tax bracket can reduce their federal income taxes by $671 when they set aside $3,050 in the FSA.

DEPENDENT CARE ACCOUNTS (DCA)
One of the more unique spending account types that can really help employees is a Dependent Care Account. A DCA allows employees to put aside pre-tax income that can specifically be spent on dependent childcare or elder care expenses like daycare, after school care, or summer camps.

The 2023 IRS limit for dependent care accounts is $5,000. A typical employee in the 22% tax bracket can reduce their federal income taxes by $1,100 in taxes if they put $5,000 for dependent care.

*<u>There is one important thing to know</u>: FSA and DCA funds **do not** rollover every year, so employees have to "use it or lose it." Help your employees develop a realistic plan for how much they will need to set aside to cover their expenses.*

Spending accounts are convenient for employees, too. In many cases, the spending account comes with a debit card to use when making eligible purchases, like paying for medical or dental care. No more paper claim forms to fill out!

Despite these advantages, spending accounts are not widely used. Employees may not understand these options or how they can be used to save money on necessary medical and dependent care costs. Be sure to include employee education when you introduce a program like this to help increase engagement and satisfaction with these benefits.