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Making the Most of Flexible Spending Accounts

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By WALECIA KONRAD
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Eyeglasses are on the I.R.S.'s list of deductible medical expenses.

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Spurred by that impulse, employees and their dependents around the country are rushing to get check-ups and stock up on saline solution before the middle of March. Otherwise, they'll lose the money left in their 2008 flexible spending accounts.

"You see a definite uptick in eye doctor and dentist appointments this time of year," said Jennifer Calhoun, a principal with Mercer Health and Benefits, a consulting firm.

The prospect of that mad scramble may be one reason so relatively few employees — only about one-fifth of those eligible — now have flexible spending accounts and the significant tax breaks they offer. That's too bad, because if used right, these accounts can help stretch your health care dollar.

In this column, we offer some tips on getting the most from these health accounts, whether you're using up leftover 2008 money, wanting to plan how to use your 2009 account or considering signing up for a plan in the fall, when open enrollment rolls around again.

Flexible spending accounts allow you to use pretax dollars to pay for certain approved health-care expenses. You agree to set aside a certain amount each year, usually through paycheck deductions, based on what you think your health care needs will be. (Flexible spending dependent care accounts work the same way for child and elder care expenses.)

By using pretax dollars, the savings can be substantial, Ms. Calhoun said. "You can reduce your overall cost for these items by about 20 percent," she said.

About 85 percent of large companies (ones with 500 or more employees) offer flexible spending accounts. But only 22 percent of eligible employees took advantage of the benefit, according to a recent Mercer Survey. Many are wary of the big drawback: If you deposit more than you spend on qualified expenses in these accounts, you forfeit the unused funds. Although the number of times this actually happens is small — only about 4 percent of employees lose money, Ms. Calhoun said — the rule is still a deterrent.

"No one likes the idea of leaving money on the table," she said. (Forfeited funds are left in the plan to help pay administrative expenses.)

If you're in a flexible spending account for 2009, you have already chosen how much you're setting aside this year. That decision got made during open enrollment period last fall. But here are some ways to get the most out of your account.

Get "the list." [Insurance](#) co-payments and deductibles are covered by health spending accounts. But did you know that [cough](#) drops and Calamine lotion can also count? Using up what's left of your 2008 account could be as simple as a trip to the drugstore.

[Internal Revenue Service](#) rules for eligible expenses are extremely generous, starting with over-the-counter medicines of all types. But the list also includes [mental health](#) therapy, lab tests, [Lasik](#) surgery, dental braces and even aids to help you stop [smoking](#). Check out the complete [I.R.S.-approved list](#) [here](#).

Watch out for exceptions. Just because the I.R.S. allows certain expenses doesn't mean your company will. Employers are free to choose what their flexible spending accounts will cover.

While the vast majority of firms simply follow the I.R.S. rules, some make exclusions, said Kathryn Bakich, the national health care compliance leader for the Segal Company, a benefits consulting firm. An employer may allow some over-the-counter pain relief medication but not others, she said.

Items that call for a physician's authorization — like the doctor-recommended visit to an exercise studio for a strained back — are the ones most likely to be disallowed, because employers don't want to spend the time and money it takes to verify the expense, Ms. Bakich said. Your benefits department can tell you if and how your company varies from the I.R.S. list of approved expenses.

Use the card wisely. Many companies give employees health care debit cards that can be used at approved vendors (doctor's offices and certain pharmacies, for example) to automatically deduct expenses from their accounts. But be sure to use the card for approved items only. Those razor blades and lipsticks will be kicked back, and the cost will most likely be deducted from your next approved expense. The extra paperwork makes it hard to keep track of your account balance and legitimate spending.

Keep paperwork simple. If your company doesn't use health spending debit cards, file your claims for reimbursement throughout the year as you make expenditures, Ms. Bakich suggests. That way you'll avoid last minute rummaging for receipts. And you'll have a better idea of what your balance is along the way, so you can avoid leftover funds in the account.

Ms. Bakich also recommends that employees frequently check their health insurer's Web site. Many keep a running list of each employee's claims, making it easy to keep track of deductibles and co-payments eligible for reimbursement. Many pharmacy benefit companies do the same.

If you also have a health-savings account ... Many companies are switching to high-deductible insurance plans that are linked to a tax-sheltered health savings account that enables employees to save for medical expenses, rolling over any balance year to year.

Be aware that these are distinct from flexible spending accounts and are governed by a different set of rules. The I.R.S. does not allow employees to use both a health savings account and a flexible spending account for regular medical-care expenses, Ms. Calhoun said. But she suggests that you may still want to use a flex-spending plan to cover dental and eye-care bills.

What's more, some employers allow a one-time rollover of flexible spending funds into employee health-savings accounts. If that's an option, maybe you can avoid the February scramble — for one year, anyhow.

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