



Know Your Benefits

Limited Purpose FSAs

Limited-purpose FSAs can be a great addition to coverage with a high deductible health plan (HDHP). Before you decide if a limited purpose FSA is right for you, you need to know how this type of plan works.

What is a limited purpose FSA?

A limited purpose health flexible spending account, also called a limited purpose FSA, is similar to a general-purpose health FSA—the difference being that there are less eligible expenses.

What are the advantages of a limited-purpose FSA?

The main advantage of FSA funds is that you can pay for qualifying medical expenses tax-free while reducing your taxable income.

You are not allowed to contribute to both a health savings account (HSA) as well as a standard (non-limited) health FSA—you are, however, eligible for an HSA if you use a limited-purpose FSA for your dental and vision care needs. This will allow you to maximize your savings and tax benefits.

What are the disadvantages of a limited purpose FSA?

FSAs employ a “use-it-or-lose-it” model. However, the University plans provide the option of allowing employees to carry over of unused funds, up to the annual IRS maximum allowed amount, from one year to the next. In addition, any amount that is carried over does not count toward the maximum contribution limit for that year. Any funds that exceed the IRS maximum carryover limit at the end of the calendar year are forfeited.

Also, in a limited purpose FSA, your covered health care procedures are limited to dental and vision expenses.

There are contribution limits to FSAs. The contribution limit for taxable years beginning in 2024 is \$3,200. The IRS will announce limits for 2025 in late 2024.

There is also no “double-dipping”, meaning that you are unable to pay for a medical procedure using your FSA as well as an additional plan or program, such as an HSA.

Is a limited purpose FSA right for me?

If you have planned future dental or vision expenses, limited purpose FSAs make a lot of sense, especially when used in conjunction with an HSA.

If you think you will have little to no dental or vision expenses in the plan year, a limited purpose FSA is a risky investment as you may lose the funds that are not eligible for carryover if not used by the end of the calendar year.

Typical eligible limited FSA expenses:

- Cleaning
- Fillings
- Crowns
- Orthodontia
- Contact lenses
- Eyeglasses
- Refractions
- Vision correction procedures

Typical ineligible limited FSA expenses:

- Insurance premiums
- Medical expenses (deductibles, coinsurance and copays)
- Alcohol and drug rehab expenses
- Prescription medicine
- Medical equipment
- Contraceptives