AMERICAN BENEFITS GROUP

Post Deductible
Limited Pupose FSA

The **Limited Purpose Health Flexible Spending Account (LPF)** allows employees the additional benefit of qualifying to participate in a tax advantaged flexible spending account while also being able to fund their individual Health Savings Account (HSA). 2025 Contribution Limit is $3,300.

When an employer introduces a high deductible Health Plan (HDHP) with a Health Savings Account (HSA), they are providing their employees a vehicle to accumulate funds on a tax favored basis, in an individual Health Savings Account, these sav-ings can then be used to pay for qualifying medi-cal expenses. Funds deposited in an HSA are not subject to the use-or-lose rule which could cause forfeitures at the end of a plan year.

The one restriction on making tax advantaged contributions to an HSA is that the employee cannot have any other "first dollar" medical coverage available (other than coverage for vision and dental expenses), because such coverage could be used to cover the minimum out-of-pocket deductible expenses stipulated by the IRS (see chart below). Funds in a general purpose FSA are counted as "first dollar" coverage and therefore, an employee who is enrolled (or whose spouse is enrolled) in a general purpose FSA would be precluded from making contributions to their HSA during the period they have active coverage in a general purpose FSA. This is where the LPF comes into play.

The LPF is designed to be compatible with the employee's Health Saving's Account. Because the LPF limits reimbursements to vision and dental expenses, employees can maximize the benefits in their HSA by allowing funds to accumulate towards deductible expenses, while using separate pre-tax dollars in their LPF to pay for their out-of-pocket vision and dental expenses.

If an employer allows it under their LPF plan design, employees who anticipate having large deductible expenses can use their LPF as a "Post Deductible FSA" once they have met the minimum outof-pocket deductible expense as required by the IRS (see your organization's benefits administrator for details). This means that employees can be reimbursed for any general purpose medical expenses that were incurred after the date that the employee met the minimum out-of-pocket deductible expense required by the IRS.

HSA Limits

HSA holders can choose to save up to the IRS limits (see below). HSA holders 55 and older get to save an extra $1,000. All of these contributions are 100% tax deductible from gross income. Minimum annual deductibles are $1,650 for self-only coverage or $3,300 for family coverage. Annual out-of-pocket expenses (deductibles, copayments, and other amounts, but not premiums) cannot exceed $8,300 for self-only coverage and $16,600 for family coverage.

Limit	2025	2024
Maximum Out-of-Pocket	$8,300 single/$16,600 family	$8,050 single/$16,100 family
Minimum Deductible	$1,650 single/$3,300 family	$1,600 single/$3,200 family
Maximum Contribution	$4,300 single/$8,550 family	$4,150 single/$8,300 family
Catch-up Contribution for individuals 55 or older	$1,000	$1,000

Can I still deduct healthcare expenses on my tax return?

Yes, but not the same expenses for which you have already been reimbursed from your FSA.

Are over-the-counter (OTC) medications

Yes. The CARES Act reinstated OTC medications as eligible, without a Prescription, as well as Menstrual Care products, retroactive to 1/1/2020.

What is a Letter of Medical Necessity?

The IRS mandates that eligible expenses be primarily for the diagnosis, treatment or prevention of disease or for treatment of conditions affecting any functional part of the body. For example, vitamins are not typically covered because they are used for general wellness, but your doctor may prescribe a vitamin to treat your medical condition. The vitamin would then be eligible if your doctor verified the necessity in treatment.

For more information, call 800-499-3539