

Savings Advantages of an FSA or DCA

A **Flexible Spending Account (FSA)** is a tax-advantaged plan that an employer can offer as a voluntary benefit to their employees. Employees can choose to contribute funds pre-tax, via payroll deductions to pay for out-of-pocket IRS-eligible medical expenses. Typically, an FSA is an employee-funded account, however employers can also choose to contribute to the employee's FSA, and take a tax reduction for any of the employer contributions.

A **Dependent Care Account (DCA)** is an employee-funded account that can be used to pay for custodial care of eligible dependents while the employee is at work. Eligible dependents include children under age 13, as well as disabled children, spouse or parents.

What is the advantage of adding an FSA or DCA?

Employer Savings with FSAs and DCAs:

In the example, to the right, an employer offers an FSA and DCA benefit and employees elect to contribute \$32,500 pre-tax. The employer does not have to pay the 7.65% payroll tax on the employee contributions. This leads to an annual tax savings of \$2486.25. After paying a year's worth of Choice Strategies administration fees, the employer saves a total of \$1084.25.

# of Participating Employees	Plan	Average Contribution	Total
10	FSA	\$1,500	\$15,000.00
5	DCA	\$3,500	\$17,500.00
Total Contribution			\$32,500.00
Payroll Tax			\$2,486.25
Choice Strategies Fees			\$1,402.00
Employer Tax Savings			\$1,084.25

Employee Savings with FSAs and DCAs:

With FSAs and DCAs, employees receive considerable tax savings. In the example below, an employee elects to contribute \$1800 into a FSA and \$3600 into a DCA annually. With an approximate federal tax rate of 20% and state income tax of 7%, the employee would save more than \$1500 annually by using the FSA and DCA plans rather than post-tax dollars.

Without FSA/DCA	
Gross Monthly Salary	\$2,500.00
Less:	
Federal Income Tax	\$333.50
State Income Tax	\$175.00
Social Security Tax	\$191.25
Net Income	\$1,800.25
Less:	
Health Care Expenses	\$150.00
Dependent Care Expenses	\$300.00
Monthly Spendable Income	\$1,350.25

With FSA/DCA	
Gross Monthly Salary	\$2,500.00
Less:	
Health Care Expenses	\$150.00
Dependent Care Expenses	\$300.00
Taxable Income	\$2,050.00
Less:	
Federal Income Tax	\$273.47
State Income Tax	\$143.50
Social Security Tax	\$156.83
Monthly Spendable Income	\$1,476.21
Monthly Savings	\$125.96
Annual Savings	\$1,511.46

Have Questions?
Contact Us!

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