MEDICAL FLEXIBLE SPENDING ACCOUNT VS. HEALTH SAVINGS ACCOUNT WHICH IS THE RIGHT CHOICE FOR YOU?

While the terms are frequently used interchangeably, Flexible Spending Accounts (FSA) and Health Savings Accounts (HSA) are actually very different savings vehicles with very distinct purposes. FSAs and HSAs are both tax-advantaged accounts that allow people to save money to pay for qualified medical expenses, but with several key differences.

FLEXIBLE SPENDING ACCOUNT (FSA) OVERVIEW

Who Establishes the FSA?

FSAs are established by an employer and are usually funded by pre-tax payroll deductions from the employee, but employers can also contribute. An FSA can be used in conjunction with any type of health insurance, although health insurance coverage is not required. FSA funds can be used to cover deductibles, copays and co-insurance, as well as qualified medical expenses that are not covered by health insurance, such as laser vision correction surgery, and over-the-counter medications prescribed by a doctor.

Contributions

In 2018 – Single Parent or Married Filing jointly - contribution limits were $2,650 for Healthcare spending and $5,000 total for Child and Elderly Care. For 2019 – Single Parent or Married Filing jointly - contribution limits are $2,700 for Healthcare spending and $5,000 total for Child and Elderly Care.

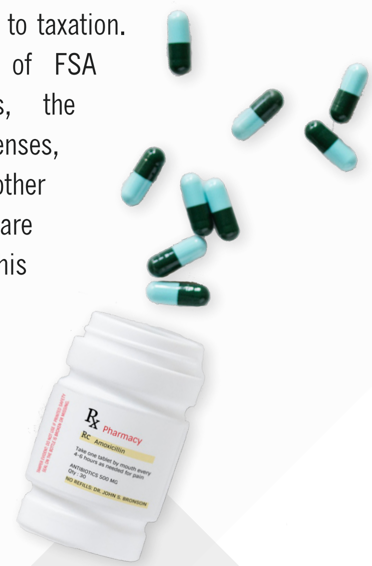
Contributions are deducted from each paycheck throughout the year. However, the full annual contribution amount is available for use immediately (or after the first contribution is made). If the employee uses the full amount and then quits or is terminated prior to the end of the year, FSA funds do not have to be paid back to the employer.

Use it … Or Lose it

FSA money not used by the end of the year (or by March 15th of the following year if the employer offers a grace period) is forfeited. Employers can also elect to allow enrollees to carry over up to $500 to the next year or elect to allow FSA funds to be used as late as March 15 of the following year.

Tax Treatment

All contributions are made before taxes and, thus, are not subject to federal income tax or to employment taxes. Unlike withdrawals from other tax-favored savings plans, reimbursements from an FSA are not included as income to the employee. This makes FSAs unique in that the contributions and future reimbursements, or withdrawals, are never subject to taxation. Due to the tax-free treatment of FSA contributions and withdrawals, the qualifying medical or dental expenses, dependent care expenses or other covered expense reimbursements are not deductible to the employee on his own personal tax return.



HEALTH SAVINGS ACCOUNTS (HSA) OVERVIEW

Who Establishes the HSA?

HSAs can be established by an employer or by an individual, but only in conjunction with an HSA-qualified high deductible health plan (HDHP). Contributions can only be made while the account holder remains covered by an HDHP. However, the money can be used — without being taxed — for qualified medical expenses at any time in the future, even if the person is no longer covered by an HDHP.

Contributions

In 2018, maximum HSA contribution was $3,450 for a person with individual HDHP coverage, and $6,900 for those with family HDHP coverage. In 2019, the maximum HSA contribution is $3,500 for a person with individual HDHP coverage, and $7,000 for those with family HDHP coverage.

HSAs can be funded (pre-tax) by employee payroll deductions or employer contributions, or by an individual. If an HSA is established by an employer and the employee quits or is terminated, the HSA goes with the employee, regardless of whether contributions were made by the employee or the employer.

Rollover Year to Year

Money in the HSA that is not used for medical expenses remains in the account, meaning that funds can rollover from year to year. HSA funds can be used for the same qualified medical expenses as FSA funds.

Tax Treatment

If money is withdrawn for qualified medical expenses, it is never taxed. If money is withdrawn for other purposes prior to age 65, it is taxed and there is an additional 20 percent penalty applied. After age 65, money can be withdrawn without a penalty, for qualified medical expenses. If not used for qualified medical expenses, regular income taxes will be owed.

FSA VS. HSA COMPARED

	FSA	HSA
EMPLOYEE ELIGIBILITY	Employees are eligible to have FSAs, except if they have HSAs. However, employees with HSAs may opt for a limited purpose FSA. LPFSAs do not offer the broad coverage of an FSA but do cover eligible out-of-pocket dental and vision expenses.	Employees who have high-deductible health insurance plans (HDHPs) are eligible to have HSAs. Per the IRS, to qualify as an HDHP for 2018, the plan's deductible needs to be at least $1,350 for individuals and at least $2,700 for families.
CONTRIBUTION LIMIT	In 2018 – Single Parent or Married Filing jointly - contribution limits were $2,650 for Healthcare spending and $5,000 total for Child and Elderly Care.	In 2018, the maximum HSA contribution was $3,450 for a person with individual HDHP coverage, and $6,900 for those with family HDHP coverage.
ACCOUNT OWNERSHIP	FSAs stay with an employer. Employees cannot take these accounts with them when changing jobs.	HSAs are not linked to a specific employer. Employees can maintain their accounts through different jobs and into retirement.
USE IT OR LOSE IT VS. ROLLOVER	Use it or lose it – with two exceptions, optionally set by employers. A grace period gives employees an additional 2.5 months to incur new expenses using the previous year's funds. At the end of this time, all unused funds are forfeited. A carryover allows employees to roll over up to $500 of unused funds into the next year. Any unused funds in excess of $500 are forfeited.	**Rollover**. Any money left in an HSA at the end of the year can be rolled over into the the next year.
FINANCIAL BENEFITS	Employees fund their FSAs with pre-tax payroll deductions that lower their gross incomes and annual tax burdens. FSAs provide tax-free reimbursements for a broad base of qualifying healthcare and dependent care expenses, but money in an FSA does not grow.	Employees fund their HSAs through pre-tax payroll deductions that lower their gross incomes and annual tax burdens. Money in an HSA grows tax-deferred (funds can be invested in stocks and bonds), and reimbursements for qualified health-care expenses are also tax-free.

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