JUSTWORKS.

FSA/HSA Resource Guide

Overview

There's no shortage of acronyms in the health insurance industry, and it's hard to keep them all straight. You've probably heard of HSAs and FSAs before, but may not know what they actually entail. What's the difference between HSA and FSA? And is this something you should take advantage of?

Here, we'll dive into some facts about eligibility, contribution limits, and overall benefits and drawbacks of both FSAs and HSAs so you can begin to find the best answer for you and your needs.

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What is an FSA?

A Flexible Savings Account, or FSA, is an employer-owned account that allows you, as an eligible employee, to save pre-tax funds to pay for out-of-pocket healthcare costs. With this account, you'll select the amount you want to put into the account for the calendar year, then the money is deducted from your paycheck and placed in the account each month as pre-tax contributions. Because it is pre-tax income, there can be significant savings when using FSA funds over your checking account.

FSAs have annual limits on how much a person can contribute to the account. In 2020, for example, the limit is $2,750. The IRS typically modifies these limits every year to account for cost of living. It's also important to note that self-employed workers aren't eligible for FSAs.

Once the plan starts, the full amount you elect for the year is available for use. If you elect to receive the maximum of $2,750, you'll immediately have access to that full amount of money to cover health care costs. In the event that you need to spend it all in on the first day of the plan, you can. That's because the company owns the account and is fronting you the money. Each time money is withheld, the company gets repaid a little more.

It's important to note that the FSA has a risk element of "use it or lose it" associated with it. If you don't use the full amount you've elected to contribute by the end of the calendar year, any remaining funds are forfeited and goes back to your employer, who actually owns the account.

FSA at a Glance

BIGGEST BENEFITS OF AN FSA:

- Can be used for deductibles, copays, medication, and other healthcare related out-of-pocket costs
- Can be paired with any health plan
- All money deposited is pre-tax
- Most FSA accounts come with a debit card
- Able to spend the money in the account before it's fully funded

DRAWBACKS OF FSAS:

- Funds do not carry over year to year, unless the FSA specifically allows for it, and even then the amount that can be carried over is limited. For this reason, the FSA has an element of "use it or lose it" for employees.

What is an HSA?

Unlike an FSA, A Health Savings Account, or HSA, is an **employee-owned** account used to save pre-tax dollars specifically for health costs. It's nonforfeitable and portable.

HSAs were created to help offset the high deductible and out of pocket costs associated with High deductible health plans or HDHPs.

Because they are employee-owned accounts, HSAs offer a greater deal of flexibility than FSAs. HSAs can be used to make investments, similar to a 401(k) and an IRA. These funds then grow in the owner's account completely tax free.

To be eligible to contribute to an HSA, you must be enrolled in a HDHP that is HSA compatible, and can't be enrolled in health coverage other than an HDHP*.

Like FSAs, HSAs also have annual contribution limits. In 2020, individuals can put away up to $3,550 in their HSA, and families can contribute $7,100. Individuals over the age of 55 can contribute an additional $1000 to their HSA as a 'catch-up' contribution.

** General purpose health FSA or HRA coverage can prevent eligibility for an HSA. In addition, you cannot be enrolled in Medicare Part A, B, C, or D, and you cannot be claimed as a dependent on any other person's tax form.*

HSA at a Glance

BIGGEST BENEFITS OF AN HSA:

- All contributions to an HSA are pre-tax up to the annual IRS limit. Individuals can put away up to $3,550 in 2020, while families can put away $7,100.
- Withdrawals from an HSA are not subject to federal (and in most cases, state) income taxes if they are used for qualified medical expenses.
- Contributions can come from various sources, including the employee, employer, a relative, or anyone else who wants to add to your HSA.
- Account holders over 55 years old make an additional pre-tax catch-up contribution of $1,000 in 2020.
- Since you own the HSA it can be used to make investments, similar to a 401(k) and an IRA. These funds can then grow in your account completely tax free.
- After you turn 65, you can begin to use the HSA for Medicare premiums.
- The funds carry over from year to year.

DRAWBACKS OF HSAS:

- If you withdraw funds for non-qualified expenses, you'll owe taxes on the money. If you withdraw funds for non-qualified expenses before you turn 65,you'll owe a 20% penalty on top of the taxes on the distribution. To contribute you must be enrolled in an HDHP which can feel expensive when you are paying large deductibles out of pocket.

What's the Difference Between an FSA and an HSA?

Both HSAs and FSAs allow you to pay for qualified medical expenses with pre-tax dollars.

THERE ARE TWO KEY DIFFERENCES FOR HSAS:

1. Contributions to HSAs are only available to you if you're enrolled in a high deductible healthcare plan. Conversely, FSAs are available for all plans.
2. Unlike an FSA, HSA balances can accumulate and roll over from year to year. You get to keep your HSA funds, even if you move to a different plan or change employers.

What Can I Use Them For?

Both FSAs and HSAs can be used for qualified healthcare expenses. What's a qualified healthcare expense? It's an expense towards a healthcare service or device meant primarily to alleviate or prevent a physical or mental disability or illness (this normally doesn't include health insurance premiums). In addition, they don't include expenses that are merely beneficial to general health, such as vitamins or a vacation.

FSA OR HSA FUNDS MAY, HOWEVER, COVER:

- ✔ Deductibles, copays, and coinsurance
- ✔ Prescription drugs

  A doctor's prescription is required in order to use FSA or HSA money to buy over-the-counter (OTC) medications.
- ✔ Dental services
- ✔ Vision care
- ✔ COBRA payments
- ✔ Long-term care services

Additionally, if you have a cost related to healthcare, you can use your FSA or HSA, even if insurance doesn't cover it. For example, a health insurance plan may not cover glasses, but you could still use your HSA funds to cover the cost of glasses.

More Examples

ELIGIBLE:

Please note this list is only intended to provide examples. It is not an exhaustive list of medical expenses as defined by the IRS and some exclusions may apply.

- ✔ Acupuncture
- ✔ Alcoholism treatment
- ✔ Ambulance
- ✔ Artificial limb
- ✔ Birth control
- ✔ Blood pressure monitoring device
- ✔ Breast pumps and related supplies
- ✔ Chiropractic care
- ✔ COBRA premiums (post tax only)
- ✔ Contact lenses and related materials
- ✔ Dental treatment
- ✔ Dentures
- ✔ Diagnostic services
- ✔ Drug addiction treatment
- ✔ Eye examinations, eyeglasses and reading glasses
- ✔ Family planning items
- ✔ Fertility treatment
- ✔ Flu shot
- ✔ Hearing aids
- ✔ Hospital services
- ✔ Immunization
- ✔ Insulin and diabetic supplies

- ✔ Laboratory fees
- ✔ Laser eye surgery
- ✔ Long-term care premiums or expenses (post tax)**
- ✔ Medical testing devices
- ✔ Obstetrical expenses
- ✔ Orthodontia (not for cosmetic reasons)
- ✔ Over-the-counter (OTC) treatments containing medicine– cold treatments, ointments, pain relievers, stomach remedies, etc.*
- ✔ Over-the-counter treatments without medicine – bandages, wraps, medical testing devices, etc.
- ✔ Oxygen
- ✔ Physical exam
- ✔ Physical therapy
- ✔ Prescription drugs
- ✔ Psychiatric care
- ✔ Retiree (post-65) medical insurance premiums (post-tax) Smoking cessation program and medications*
- ✔ Surgery Sunscreen & sun block (SPF 15+, broad spectrum)
- ✔ Transportation for medical care
- ✔ Weight loss program to necessary to treat a specific medical condition
- ✔ Wheelchair, walkers, crutches and canes

**OTC items that contain a drug or medication require a prescription in order to be reimbursed. A "prescription" means a written or electronic order for a medicine or drug that meets the legal requirements of a prescription in the state where the medical expense is incurred, and the prescription must be issued by an individual who is legally authorized to issue a prescription in that state.*

***Limitations apply. See IRS Publication 502 for more information.*