MANAGING HEALTH CARE FINANCES

Save money by paying for health care with an HSA or health FSA, not your checking account. Here's how the two compare.

Once you've put your benefits to use and gotten the care you needed, you may be responsible for paying a portion of the cost for that care. This may be the case especially if you haven't met your deductible for the year. So, what's the smartest way to pay for your care?

You can save money by paying for health care with a health savings account (HSA) or a health flexible spending account (FSA). Unlike the money you put into a personal checking or savings account at the bank, you don't pay federal income tax on the money you contribute to an HSA or health FSA. And both accounts allow you to withdraw money tax free to use to pay for qualified medical expenses. But the HSA and health FSA have some key differences. **Find out what they might mean to you. ›**

	HSA Allows you to save what you don't use this year for your future needs	**HEALTH FSA** Allows you to set aside money you plan to spend, typically within the plan year
Will the account help me save on taxes?	Yes. You don't pay taxes on your contributions or when the account grows. You can also withdraw money tax free to cover qualified medical expenses.[1]	Yes. You can not only add money as pretax payroll deductions, but also withdraw money tax free to cover qualified medical expenses.
How do I know if I'm eligible?	You can establish and contribute to an HSA if you meet all of the eligibility requirements. - Must be enrolled in an HSA-eligible health plan on the first day of the month - Must not be covered by any other health plan unless that plan is also an HSA-eligible health plan - Must not be enrolled in Medicare - Cannot be claimed as a dependent on someone else's tax return[2]	If you meet the plan eligibility requirements you can enroll in a health FSA with your employer. If you're self-employed, you aren't eligible.
Do I own the account?	Yes, you do.	No, your employer does.
What happens if I have money left over at the end of the year?	The balance **carries over** from year to year until you need it.	You will generally **forfeit any money left** in a health FSA at the end of the year, unless your employer offers a grace period or allows you to carry some of it over for next year.
What if I change jobs?	Your HSA **can move with you.** And if you lose your job, you can use the money to pay for COBRA premiums (which temporarily extend your employer-sponsored health care coverage).	The account **remains with your former employer** when you leave, but you may be able to elect to continue to be enrolled in a health FSA under COBRA.
How can I make my money grow?	Contributions generally go into an interest-earning account, but you may be able to invest all or part of your balance to save for the future.[3]	You can't.
Can I use the account to save for the future, like in retirement?	Yes. You can withdraw money tax free (federal and usually state) to cover qualified medical expenses in the future, including in retirement. You also can use it for general expenses after age 65—you just have to pay normal income taxes on the money you withdraw.	No. When you retire, so does the health FSA.

SHOULD I CONSIDER USING AN LPFSA TO PAY FOR DENTAL AND VISION EXPENSES?

If you have an HSA, you can also enroll in a limited-purpose FSA (LPFSA) to set aside money specifically for qualified vision and dental expenses. Having both accounts lets you get the most tax and savings benefits. Many employers who offer an HSA-eligible health plan with an HSA also offer an LPFSA. If you use an LPFSA to pay for dental and vision expenses, you can then use your HSA for other qualified medical expenses—or save it for later. But, as with a health FSA, you typically lose the money you don't spend in an LPFSA. You may want to consider contributing to an LPFSA after you reach your maximum HSA contribution.

WHAT SHOULD I CONSIDER DOING NOW?

- Get familiar with your health benefit offerings to know if you have access to an HSA and health FSA.
- Think about the potential tax benefits for these accounts and how they may help your overall financial goals.
- Develop a health savings target for how much money you need for short-term expenses and how much to build up for long-term health costs.
- Start planning for longer term health costs, including retirement needs, and make a savings and investing goal if you have an HSA.

Learn more in the
Employee Health Benefits Navigator

1. With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation. The triple tax advantages are only applicable if the money is used to pay for qualified medical expenses.

2 "Revenue Procedure 2021-25," Internal Revenue Service, Code of Federal Regulations, 2021, https://www.irs.gov/pub/irs-drop/rp-21-25.pdf.
"Health Savings Accounts (HSA) FAQs," Fidelity.com, accessed January 31, 2022,
https://www.fidelity.com/go/hsa/faqs?imm_pid=700000002058991&immid=100853&imm_eid=ep53520211790&gclid=CIDFr-mp3PUCFcOIgQodYL0DOw&gclsrc=ds

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