



# Helping Employees Choose Between an FSA and HSA

## Get the best value from your health plan

Choosing a health plan is one of the more challenging aspects of managing your overall healthcare. It's tough to extrapolate what each plan option means for your family in dollars and cents. How much will you have to pay out of pocket with each option? How do you know if you are getting the best value for your hard-earned dollars?

We've created a simple chart to help you more easily compare plan options. Let's compare to see which plan is best for you!

## Differences between an FSA and an HSA

### What is an FSA?

An FSA can be paired with any health plan and is set up and controlled by your employer. The account can be funded by pre-tax payroll deferral in an amount elected during open enrollment. Participants can then use that money to pay for qualified healthcare expenses throughout the year. FSAs truly are a "spending" account, in that participants are expected to spend the funds by the end of the plan year, though certain plans may have features that allow for added flexibility. Expenses must be an IRS-qualified medical expense to be eligible for payment with the FSA's tax-free dollars.

### What is an HSA?

Unlike an FSA, an HSA requires that the insured be covered under a high-deductible health plan (HDHP). It also differs from an FSA because the account is owned by you, the participant. While most HSA participants enjoy the convenience of account contributions being deducted pre-tax from their paychecks, HSAs may also be funded by their employer or family member (or by the employee on a post-tax basis). The account owner can spend the funds on current eligible expenses or save them for future expenses. Because the account is owned by the individual, the participant is solely responsible for the substantiation of expenses and is not required to send receipts to their employer or administrator.

Criteria	FSA	HSA
<b>OVERVIEW</b>		
<b>General Purpose</b>	Funding predictable healthcare expenses in the current year with pre-tax dollars	Funding a lifetime of healthcare expenses with pre-tax dollars
<b>Account Owner</b>	<b>Employer</b> - Because the account belongs to your employer, your participation in the plan ends when employment is terminated	<b>Employee</b> - Because the account belongs to you, the employee, you maintain ownership after you leave your company
<b>Health Plan Pairings</b>	Can be paired with any health plan	Must be paired with a qualified HDHP: <ul style="list-style-type: none"> <li>• Deductible not less than \$1,400 for single or \$2,800 for family</li> <li>• Annual out-of-pocket expenses do not exceed \$7,050 for single or \$14,100 for family</li> </ul>
<b>Distribution of Funds</b>	<b>Eligible Medical Expenses Only</b> - Funds may be used to pay for 213(d) eligible expenses only; cannot access for non-medical reasons	<b>Eligible Medical Expenses with Exceptions</b> Funds are to be used to pay for 213(d) eligible expenses, but may be withdrawn for non-medical expenses with a 10% penalty
<b>Timing of Usage</b>	<b>FSA with Rollover</b> - Up to \$570 of remaining balance may be rolled over to be used in the following plan year	<b>Funds Are Never Forfeited</b> - Reimbursement can be made for any eligible expense incurred from the HSA established date to the current date; funds do not expire, making an HSA an excellent savings vehicle

Criteria	FSA	HSA
<b>Earnings Investments</b>	No earnings paid	Some HSA offerings provide integrated investment options and/or interest benefits
<b>Tax Savings</b>	<b>Tax-free</b> - Employee contributions made via payroll deduction are taken out prior to income tax assessment	<b>Tax-deductible</b> - Employer contributions and contributions made by employees above the line (i.e. from their bank account) are tax-deductible <b>Tax-free</b> - Employee contributions made via payroll deduction are taken out on a pre-tax basis
<b>CONTRIBUTIONS</b>		
<b>Source of Contributions</b>	Employer: optional Payroll deferral: optional From employee bank account: not allowed	Employer: optional Payroll deferral: optional From employee bank account: optional
<b>Contributions</b>	Annual election amount is determined by the participant during open enrollment and deducted evenly per pay period; Changes may only be made due to a qualified life event (marriage, birth, etc.)	Annual election amount is determined by the participant during open enrollment and deducted evenly per pay period; Employees can adjust contributions throughout the year up to IRS limit; Employers may also contribute
<b>Contribution Limit</b>	IRS limit of \$2,850	IRS limit of Single: \$3,650 / Family: \$7,300
<b>DISBURSEMENTS</b>		
<b>Direct Access to Funds</b>	Pay providers directly via debit card	Pay providers directly via debit card, check or on the providers website via ACH
<b>Claims for Reimbursements</b>	Submit a claim for reimbursement with receipts online, by fax, or using the mobile app	There are no claims. Employees pay for eligible expenses directly from the account.
<b>Substantiation Requirement</b>	Receipts and Explanation of Benefits (EOBs) should be kept for all purchases; Your plan administrator may require them for reimbursement	There is no requirement for substantiation. The participant is solely responsible for proper use of funds. Documentation should be kept in case of IRS audit.
<b>Cash Withdrawal</b>	Not permitted	Cash withdrawals are allowed. The cash must be used on an eligible expense or be subject to a 10% penalty; After age 65, cash withdrawals can be made for non-eligible expenses penalty-free but subject to income taxes

## Primary benefit of both plans

Both plans provide advantages for both the employee and the employer:

- Tax-free treatment of healthcare expenses
- Contributions that are payroll-deferred are not reported as income to the employee, resulting in payroll tax savings for the employer and income tax savings for the employee.
  - Employees making contributions will save between 15-40% by avoiding federal and state income taxes as well as the employee half of payroll taxes.

## Which plan to choose

### FSA

FSAs do not require participation in a HDHP, so they are most frequently offered in conjunction with traditional health plans. Traditional health plans limit out-of-pocket expenses for participants making it easier for an employee to estimate annual medical expenses by calculating projected copays, deductible amounts, co-insurance, etc.

### HSA

HSAs offer employees a broader value proposition: the ability to pay for current or future expenses without fear of forfeiting dollars, **triple tax advantage**, investment growth potential, and the option to pay for non-medical expenditures if necessary.

\*These figures are based on the employer half of FICA and FUTA. The information detailed is for illustrative purposes only and should not substitute for legal or tax advice.