Flexible Spending Accounts versus Health Savings Accounts
What Every Individual Should Know…

Both **FSA**s and **HSA**s are tax-advantaged accounts that allow people to save money to pay for qualified medical expenses, but they have several key differences.

Flexible Spending Accounts (FSAs)

- Established by an employer.
- Usually funded by pre-tax payroll deduction.
- 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 coinsurance, as well as qualified medical expenses that are not covered by health insurance, such as LASIK eye surgery. Prior to 2011, FSA funds could be used to purchase over-the-counter medications, **but now they can only be used for OTC medications if a doctor has prescribed them**.
- "Use it or lose it" – money not used by the end of the plan year is forfeited, although employers can allow enrollees to carry over up to $500 to the next year.
- In the past, employers could set their own FSA contribution limits for their employees. But the ACA limits contributions to no more than $2,600 in 2017.
- 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.

Health Savings Accounts (HSAs)

- Can be established 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.
- Can be funded (pre-tax) by employee payroll deductions, or by an individual.
- In 2017, maximum HSA contribution is $3,400 for an individual and $6,750 for a family.
- If an HSA is established by an employer and the employee quits or is terminated, the HSA goes with the employee.
- Money in the HSA that is not used for medical expenses remains in the account.
- HSA funds can be used for the same qualified medical expenses as FSA funds. And just like FSAs, **a doctor's prescription is required in order to use HSA money to buy OTC medications**.
- If money is withdrawn for qualified medical expenses, it is never taxed.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, but if it is not used for qualified medical expenses, income taxes will be owed.

Health spending account comparison	**HSA**	**FSA**
You own the account.	√	X
Your employer owns the account.	X	√
You must have a high-deductible health plan.	√	X
You can invest the money in the account.	√	X
Must report account when you do your taxes.	√	X