Helping Employees

Choosing Between an FSA & HSA

Reducing your out-of-pocket healthcare costs

The cost of health benefits is rising at an exponential rate. Tax-advantaged benefit accounts represent a compelling way to help offset the increase in your out-of-pocket healthcare costs. Flexible spending accounts (FSAs) and health savings accounts (HSAs) empower you to save for and better manage your healthcare costs. Every dollar that you contribute will reduce your tax liability. Understanding the differences between these accounts helps you to make the right choice for your situation.

Differences between FSA & HSA

What is an FSA?

An FSA can be paired with any health plan and is set up and controlled by the employer. The account is funded by pre-tax payroll deferment 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 required to spend the funds by the end of the plan year when they are forfeited—though certain plans may have features that allow for added flexibility. Expenses must be IRS-qualified medical expenses to be eligible for reimbursement with tax-free FSA dollars.

What is an HSA?

Unlike an FSA, an HSA requires that the insured be covered by a high-deductible health plan (HDHP). It also differs from an FSA because the account is individually owned. While most HSA participants enjoy the convenience of account contributions being deducted pre-tax from their paychecks, HSAs may also be funded by an employer or family member. 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
Overview		
General Purpose	Funding predictable healthcare expenses in the current year with pre-tax dollars.	Funding a lifetime of healthcare expenses with pre-tax dollars.
Account Owner	**Employer** Because the account belongs to your employer, your participation in the plan ends when your employment is terminated.	**Employee** Because the account belongs to the employee, they maintain ownership after they leave the company.
Health Plan Pairings	Can be paired with any health plan.	Must be paired with a qualified HDHP: • Deductible not less than $1,600 for single or $3,200 for family (2024). • Annual out-of-pocket expenses do not exceed $8,050 for single or $16,100 for family (2024).
Distribution of Funds	**Eligible Medical Expenses Only** Funds may be used to pay for eligible medical expenses only; cannot access for non-medical reasons.	**Eligible Medical Expenses with Exceptions** Funds are to be used to pay for eligible medical expenses, but may be withdrawn for non-medical expenses with 10% penalty.
Timing of Usage	**Check with your employer to see if you have rollover or grace period for your FSA.** **FSA with Rollover** Up to $640 (2024) of remaining balance may be rolled over to be used in the following plan year. Check with your employer to confirm your rollover amount. **FSA with Grace Period** Account balance must be used by the end of the grace period for that plan year; unused balance is forfeited.	**Funds are Never Forfeited** Reimbursement can be made for any eligible expense incurred from the HSA open date to the current date. Funds do not expire, making an HSA an excellent savings vehicle.
Earnings Investments	No earnings paid.	Some HSA offerings provide integrated investment options and/or interest benefits.
Tax Savings	**Tax-deductible** Employer contributions are tax-deductible. **Tax-free** Employee contributions made via payroll deduction are taken out prior to income tax assessment.	**Tax-deductible** Employer contributions and contributions made by employees (i.e. from their bank account) are tax-deductible. Employee contributions by payroll deferal are pre-tax.
Contributions		
Source of Contributions	Employer: optional Payroll deferral: optional From employee bank account: not allowed	Employer: optional Payroll deferral: optional From employee bank account: optional
Contributions	Annual election amount is determined by the participant during open enrollment and deducted evently 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 evently per pay period; Employees can adjust contributions throughout the year up to IRS limit; Employers may also contribute.
Contribution Limit	IRS limit of $3,200 (2024)	IRS limit of Single: $4,150 Family: $8,300 2024) Additional $1,000 annual catch-up contribution for age 55+
Disbursements		
Access to Funds	Pay providers directly via debit card or submit claims for reimbursement.	Pay providers directly via debit card or online bill pay, or on the provider's website via ACH.
Claims for Reimbursements	Submit a claim for reimbursement and receipts online, by fax, or using the mobile app.	There are no claims. Employees pay for eligible expenses directly from the account.
Substantiation Requirement	Receipts and Explanation of Benefits (EOBs) should be kept for all purchases. Your plan administrator will 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.
Cash Withdrawal	Not permitted.	Cash withdrawals are allowed. The cash must be used on an eligible expense or be subject to a 20% 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 income tax savings for the employee.
    - Employees making contributions will save 15-40% by avoiding federal and state income taxes and the employee half of payroll taxes.

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

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 and make it easy for an employee to estimate annual medical expenses by calculating projected copays, deductible amounts, and co-insurance. Although the addition in 2013 of the rollover feature minimizes forfeited funds, employers still have the benefit of retaining any funds that are forfeited.

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.

nbs national benefit services

855-399-3035 | service@nbsbenefits.com
www.nbsbenefits.com