Fidelity INVESTMENTS HEALTH SOLUTIONS THOUGHT LEADERSHIP

HSA & FSA:

Understanding the differences

The acronyms are confusingly similar. But there are important differences between Health Savings Accounts (HSAs) and health care Flexible Spending Accounts (FSAs). The root of the difference is right there in the names:

Health Savings Account allows you to **save** what you don't use this year for your future needs.

Flexible Spending Account allows you to set aside money you plan to **spend** this year.

To be sure, the accounts have some key similarities — notably, contributions to both accounts are exempt from federal income tax, and both accounts may be used to pay for qualified medical expenses.[1]

But most people don't understand what makes HSAs and health care FSAs different. Here are five key differences — and what they mean to you:

1. Eligibility

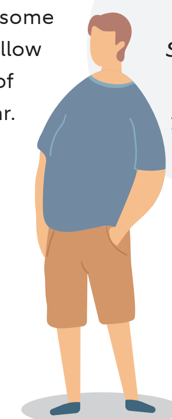
HSA: To be eligible for an HSA, you have to be enrolled in a health plan that has a deductible of at least $1,350 for an individual or $2,700 for a family, as well as a cap on out-of-pocket spending of $6,750 for an individual or $13,500 for a family. This is what's considered a "HSA-eligible health plan" for 2019.

FSA: Generally, you can enroll in a health FSA with your employer if they offer one. If you're self-employed, you aren't eligible.

2. Ownership

HSA: You own your HSA, much as you own a brokerage account or your 401(k), and the money is always yours; the balance carries over from year to year until you need it. This is perhaps the biggest misunderstanding about HSAs—more than 60% of people believe they lose unspent money in their HSA.[1]

FSA: The health care FSA is "use it or lose it." Your FSA belongs to your employer, and you will generally forfeit any money left in an FSA after the end of the year. In some cases, your employer may allow you to carry over a portion of the money into the next year.



3. Portability

HSA: You own your HSA, regardless of your job. In addition, if you lose your job, you can spend the money to cover your COBRA costs (COBRA temporarily extends your employer-sponsored health care coverage).

FSA: The account remains with your former employer when you change jobs. You may be able to submit claims for expenses incurred prior to leaving the company and may be able to elect to continue to be enrolled in a health FSA under COBRA.

4. Growth

HSA: When money is contributed to an HSA it is generally put into an interest-earning account. Depending on your HSA provider, you may be able to invest all or part of your balance for the future. And you can choose an investment you're comfortable with, depending on your time horizon and risk tolerance.

FSA: Your health care FSA balance can't be invested.

5. Retirement

HSA: If you save the money in your HSA over the years, you can use it to cover qualified medical expenses in the future, including in retirement. Withdrawals are federal tax free (and usually state tax free) if you use the money to pay for qualified medical expenses.[2] You also can spend your HSA money on general expenses after age 65 — you just have to pay normal income taxes on the money you withdraw.

FSA: Since you lose any leftover money when you leave your job, there's no opportunity to save your health care FSA for retirement.

But wait, there's more

There also is such a thing as a limited-purpose FSA, which you can only have if you also have an HSA-eligible health plan and an HSA.

The limited-purpose FSA allows you 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 a limited purpose FSA.

If you use a limited-purpose FSA 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 traditional FSA, you lose the money you don't spend in a limited FSA.

As a general rule, only consider contributing to a limited-purpose FSA once you are contributing the maximum to your HSA.

[1] CARAVAN® Survey of 4,000 adults, completed in October 2018 by ORC International, which is not affiliated with Fidelity Investments. Included in the analysis were 1,128 respondents enrolled in an HSA-eligible health care plan. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.

[2] 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.

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