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How to tell the difference between FSA and HSA?

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When considering options for saving on healthcare costs, two tax-advantaged accounts stand out: the FSA (Flexible Spending Account) and the HSA (Health Savings Account). While they share the common goal of allowing employees to set aside pre-tax money to cover medical expenses, they differ on several key points such as eligibility, contribution limits, and fund management.

FSA (Flexible Spending Accounts)

An FSA allows you to set aside pre-tax money to cover health and childcare expenses. Unlike an HSA, the money must generally be spent before the end of the year. Some employers allow a deferral of up to \$610 or offer a grace period of up to 2.5 months.

HSA (Health Savings Account)

An HSA is a tax-advantaged savings account designed for enrollees in a High Deductible Health Plan (HDHP). It allows you to set aside pre-tax money to pay for medical expenses such as doctor's visits, prescriptions, dental care and vision care.

HSA vs. FSA

The main differences between an FSA and an HSA lie in eligibility requirements, contribution limits, tax benefits and fund management. Here's an overview of the main differences:

Eligibility

- Offered by employers and available to employees regardless of the type of health insurance plan they have, the FSA is not tied to a high deductible health plan (HDHP).
- Available only to enrollees in a High Deductible Health Plan (HDHP), you cannot have an HSA unless you meet this requirement.

Contribution limits (2024)

FSA: In 2024, the Health FSA contribution limit is \$3,200 per year. The limit may vary if your employer offers a deferral option or a grace period.

HSA: In 2024, the HSA contribution limit is \$4,150 for individuals and \$8,300 for families. There is also an additional \$1,000 contribution allowed if you are 55 or older.

Ownership of funds

- The employer owns the FSA account. If you leave your job, you may lose the funds unless you are eligible for COBRA coverage.
- You are the HSA account holder, so the funds remain yours, even if you change jobs or stop enrolling in an HDHP.

Deferral of funds

- FSA funds are generally "use it or lose it", meaning you must spend the balance within the plan year. Some employers allow a deferral of up to \$610 or offer a grace period of up to 2.5 months.
- HSA funds roll over from year to year without limit, and there is no deadline for using the money.

Tax benefits

- FSA contributions are made in pre-tax dollars, reducing your taxable income. However, growth or interest earned on an FSA is generally not applicable, as the funds do not grow over time.
- The HSA enjoys a triple tax advantage: contributions are pre-tax or tax-deductible, earnings (such as interest or investment growth) are tax-free, and withdrawals for qualified medical expenses are tax-free.

Use of funds

The FSA is typically used for medical, dental and optical expenses, but also for dependent childcare. If the funds are used for non-medical expenses before age 65, you may be subject to a 20% penalty.

HSA can be used for qualified medical expenses. After age 65, HSA funds can be withdrawn for non-medical expenses without penalty (although taxed as ordinary income). If funds are used for non-medical expenses before age 65, income taxes must be paid and a 20% penalty is applied.

Flexible contributions

You decide on your HSA contribution amount during the open enrollment period, and it's generally impossible to change it during the year unless you experience a qualifying life event. You can change your HSA contribution amount at any time during the year, as long as you're still covered by an HDHP. These differences mean that an FSA is more restrictive in terms of flexibility and eligibility, while an HSA offers more control and long-term savings potential.

In summary, the choice between an FSA and an HSA depends on a number of factors, including your health plan, your work situation and your needs for flexibility and long-term savings. The FSA may be a good option for those wishing to cover short-term medical or childcare expenses, but it offers less flexibility and the funds generally have to be used before the end of the year. On the other hand, the HSA, for those with a high-deductible health plan, offers greater tax benefits and the opportunity to grow unused funds over the long term. Understanding the advantages and constraints of these two options enables you to make an informed decision to optimize your health coverage and your finances.



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