Using An HSA/FSA

Setting yourself up for financial success

Pros & Cons

<table>
<tr><th>Pros & Cons</th><th>HSA</th><th>FSA</th></tr>
<tr><td>Pros</td><td>Contributions can be invested.
Account funds are not “use it or lose it” — money remains in your account until you choose to withdraw it.
You have flexibility to decide how much to contribute during the course of the year.
Money can be withdrawn for any purpose without penalty after age 65.</td><td>You don’t need a qualifying HDHP to contribute.
You can put away pre-tax money not just for health care, but also for dependent care.
You’ll get immediate access to the funds you elect to contribute for the year</td></tr>
<tr><td>Cons</td><td>You’re eligible for an HSA only if you have a qualifying HDHP.
You can only open and contribute to an HSA if you:
Are not enrolled in Medicare.
Are not enrolled in TRICARE or TRICARE for Life.
Are not claimed as a dependent on someone else’s tax return.
Do not have any disqualifying alternative medical savings accounts, like a Flexible Spending Account or Health Reimbursement Account.
You can access funds only after they’ve been contributed.</td><td>If you don’t use your FSA contribution within the year it is made (or within any applicable grace period), you could lose the contributed funds.
If you leave your ER, you can’t take that money with you.
Money in an FSA cannot be invested.</td></tr>
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Things to Consider

Eligibility rules. Only employers offer FSAs, while HSAs can be offered by employers but can also be opened independently. However, FSAs are available to anyone whose employer offers one, while you can contribute to an HSA only if you have a qualifying HDHP.

Tax rules. While an FSA and HSA both allow you to make contributions with pre-tax dollars, an FSA is not the same as an HSA for tax purposes. The HSA contribution limits are different from the FSA limits. HSAs allow catch-up contributions for those 55 and over, but FSAs do not.

Contribution rules. You must choose how much to contribute to your FSA at the start of the year, while you have the flexibility to make HSA contributions until Tax Day for the year in which the contribution is made.

Ability to invest. When you make contributions to an HSA, the money is put into an account with a financial institution, such as a bank or brokerage firm, and you can invest your HSA money so the funds can grow. FSA funds cannot be invested.

Permissible use of the funds. HSAs and medical FSAs are intended to cover health care only. In contrast, a dependent-care FSA can be used to pay for child or adult day care with pre-tax funds.

Withdrawal rules. FSA money can be used only to cover eligible medical expenses. HSA funds can be withdrawn for other purposes, but withdrawals before age 65 are subject to a 20 percent penalty plus income taxes if the money isn't used to cover medical care. After age 65, you can take money out of an HSA for anything you'd like and will simply pay taxes at your ordinary income tax rate.

Account ownership rules. Your HSA belongs to you. If you leave your job, you can take it with you. This is not the case with an FSA, which you forfeit upon leaving your job unless you are eligible for and elect COBRA continuation coverage of your FSA.