What are HSAs and FSAs?

Both HSAs and FSAs allow people with health insurance to set aside money for health care costs referred to by the IRS as qualified medical expenses. These include medical care, prescription drugs, dental and vision care, over-the-counter medications and other health-related items. In many cases, you receive a debit card for your account and can use it to pay for qualifying expenses. Both types of accounts have tax benefits, but there are some differences to be aware of.

What to know about HSAs

An HSA is a savings account into which you deposit pre-tax money. Your money grows tax-free in your HSA and, prior to age 65, any distributions you take to pay for qualified medical expenses (deductibles, prescriptions, etc.) are tax-free as well. Once you turn 65, you can use your savings to pay for anything you want. Your contributions occur on a tax-free basis. This means you'll save tax money when you file your return.

Health savings accounts are not typical savings accounts, and they're available only to people who have a high-deductible health plan, or HDHP. Here are the important points:

- There's a contribution limit. In 2022, people with individual health insurance can save up to $3,650 to an HSA, and people with family coverage can save up to $7,300.
- HSA funds roll over from year to year.
- Contributions to your Healthcare FSA come out of your paycheck before taxes, in regular increments.

Feel free to review the HSA video for more information.

What to know about FSAs

A Flexible Spending Account (FSA) is a special account you put money into that you use to pay for certain out-of-pocket health care or dependent care costs.

There are different types of FSA plans you can get. Your contributions occur on a tax-free basis. This means you'll save tax money when you file your return.

1. Healthcare FSA: You can use funds for eligible medical expenses, including dental and vision. Eligible people include you, your spouse and any dependents you claim on your tax return. A healthcare FSA can offer a rollover or a grace period.
    - For 2022, the contribution limit for Healthcare FSAs $2,850.

2. Dependent Care FSA: Participants can use money from this account to pay for the dependent care of a child or adult. It's intended for individuals who need dependent care so they can work. Dependent Care FSAs don't offer a rollover option but may offer a grace period or run-out period.
    - For 2022, the Dependent Care FSA contribution limit is $5,000 if you're married filing jointly or $2,500 per account if each spouse has one.

- Healthcare FSAs have a Use It or Lose It rule. This means you give up any FSA funds you don't spend by the end of the plan year. This is in stark contrast to HSAs. With an HSA you don't have to use your contributions within a certain timeframe.

- Healthcare FSAs have a Run Out Period in which to submit eligible expenses for reimbursement at the end of the plan year for ACTIVE employees. You may submit claims at any time during the year but no later than 90 days after the end of the plan year if you are an active employee.

- The money in a Healthcare FSA comes out of your paycheck before taxes, in regular increments, but these accounts are generally "pre-funded." In other words, though you haven't paid in yet, the full contribution amount you selected during open enrollment is available to spend at the beginning of the year.

Feel free to watch the FSA Video for more information.

Should you choose an HSA or an FSA?

Both accounts have benefits that can make managing your out-of-pocket medical expenses easier throughout the year. In general, healthier and younger people with few prescriptions or medical conditions are likely to do better with an HSA and HDHP, since they're not seeking frequent medical care or paying for regular medications. If you had high medical costs, you will still have a significant amount to pay out of pocket, even if you contributed the maximum to your HSA.

It's worth doing the math on any plans you're comparing: Calculate how much you'd expect to pay for both plans in yearly premiums, deductibles and out-of-pocket costs, factoring in any employer contributions.

While FSAs offer less flexibility than HSAs, an FSA will still help you save money, and can be paired with any plan.

A good guideline as you begin thinking about how much to contribute: Start with enough to cover your deductible, expected medication costs, typical over-the-counter pharmacy spending, and anticipated doctor’s visits.

In general, electing to sign up for an HSA or FSA is a good financial move. Knowing which one to select and how to get the most out of it will take some education.