

# Using FSAs In Conjunction With HSAs

- Employees may participate in both an FSA and an HSA at the same time. However, if that does occur, the FSA then becomes limited. The items/services allowable through an FSA if an HSA is included are: dental, vision, preventative and amounts over the deductible. If a participant meets the deductible, the 'limited' rule no longer applies, and all other services/items are allowed through the FSA (so long as they are allowable by the IRS).

This benefit can be especially helpful for employees who have significant dental/vision expenses for their family (including orthodontia, glasses, contacts, Lasik surgery, etc). This benefit is also helpful for employees of employers who do not have a dental insurance or vision plan, since this option allows employees to fund a pre-tax account to offset those expenses.

- Flexible Spending Accounts often help employees with cash-flow concerns, since the Health FSA is annualized (employees can be reimbursed for expenses incurred even before they have made equivalent contributions to the account). For employees with large health expenses early in the year, the HSA may be less convenient and effective than an FSA. HSA contributions work as traditional accounts do – you can be reimbursed only for what you put in. By giving the employees an option to contribute to a FSA, this can alleviate those issues and allow employees to have maximum flexibility according to their personal preferences and needs.
- Health FSAs typically have higher annual maximums than HSAs, allowing many employees a higher level of tax savings in a particular year. There is no IRS limit to the annual maximum on a Health FSA (max set by Employer). HSA contributions are limited to \$3,000 per year for those with individual health coverage and \$5,950 for those with family health coverage. It has been said that if you are a spender, the Health FSA may be the better choice. If you are a saver, then a Health Savings Account may be the better choice.
- Dependent care FSA is a significant benefit. Even for plans that have the HSA and do not elect to have a Health FSA option, those employers should still strongly consider offering a Dependent Care FSA. The Dependent Care FSA does not conflict with the HSA in any way and is a terrific benefit for employees. Given the expense of work-related childcare for employees, the Dependent Care FSA offers a significant way for employees to save 25-35% on those expenses.
- Employer tax savings increased with all of the above! If the employer utilizes an FSA plan in conjunction with an HSA plan, each of the four categories above will contribute to additional tax savings for the employer. Since the employer is exempt from the FICA match for all expenses contributed by employees to an FSA, allowing employees additional options for funding their expenses through Health FSAs and Dependent Care, FSAs boosts employer tax savings in addition to providing tax-favored benefits to the employees.

***For further questions about FSA or HSA plans and how they work, please contact BenefitEdge Insurance Services at (888) 995-3343 or email: [info@benefitedge.net](mailto:info@benefitedge.net)***

What does it mean?	Flexible Spending Account	Health Savings Account
Who “owns” it?	Employee	Employee
Who funds it?	Employee	Employer and/or Employee
How is it funded?	Pre-determined amount set aside pre-tax in an account the employee is reimbursed	Pre-determined amount set aside pre-tax in an account then a the employee can use a debit card to pay for medically necessary items
Are there insurance requirements	None. Employee does not need to participate in the employer’s health plan	Yes—be enrolled in a high deductible health plan approved by the IRS
Is it a personal account?	Yes—Non interest bearing	Yes—Earns interest tax free
What is the max contribution?	\$5,000 per year or a lower amount set by the employer	\$3,000—Individually \$5,950—Family (2 or more)
Does the unused money carry over?	No—you have to use it or you will lose it	YES
Is it portable?	Unused funds must be spent by the years end (or by termination of employment before years end) otherwise individual loses the money	Yes, it is a personal account and the money belongs to the employee
What are the tax savings?	Contributions to FSA are tax free and so reduce annual taxable income	The employer may deduct all qualified contributions as business expenses. The employee money is deposited in an account pre-tax through section 125 plan and can be withdrawn with no tax penalty to pay for qualified medical expenses
Can funds be used for non-medical expenses?	No, health portion of the FSA is only used for expenses defined under applicable IRS code	No, only expenses defined under IRS code. If money is spent on non-qualified expenses it will be applied to gross income amount and will incur a 10% penalty, except for those over 65, deceased or disabled
Dependent care expenses eligible?	Yes, employee can select a separate amount of money to pay for dependent care	No