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What to know about HSAs and FSAs

Article 2 – Sept. 25, 2023

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Paying for health care can be challenging — but are you taking full advantage of all the resources available to you?

You might have access to a Health Savings Account (HSA) or a Flexible Spending Account (FSA), so let’s look at both.

An HSA is a personal savings account used to pay health care costs. If you’re enrolled in a high-deductible health plan, you also may be eligible to contribute to an HSA. You aren’t taxed on the money you put into this account or on the earnings generated from your contributions, as long as withdrawals are used for qualified health care costs such as deductibles, copayments and coinsurance. And there’s no “use it or lose it” provision with HSAs — the money stays in your account until you use it. In fact, you can carry your HSA with you all the way until retirement, when you can use the money to pay for qualified expenses that Medicare or Medicare Supplement Insurance (Medigap) doesn’t cover. In 2023, you can contribute up to $3,850 to an HSA, or $4,850 if you’re 55 or older; for family coverage, you can put in up to $7,750.

It’s important to keep in mind that your HSA’s tax benefits only apply when your withdrawals are used for qualified heath care costs. If you use the money for non-qualified expenses, it is considered taxable income, and you may also face a penalty of 20% on the amount withdrawn. However, once you turn 65, you can use your HSA funds for any purpose without a penalty, though the withdrawals will still count as taxable income.

Now, let’s turn to the Flexible Savings Account. An FSA may be available to you if you get health insurance through your employer. And because you fund your FSA with pretax dollars, your contributions can reduce your taxable income. (In 2023, you can contribute up to $3,050 to an FSA.) Your employer may also choose to contribute to your FSA. Once your account is funded and active, you submit claims with proof of your medical expenses, along with a statement that these expenses aren’t covered by your plan, and you can be reimbursed for your costs.

It’s helpful to have a good estimate of your yearly medical expenses for a Flexible Savings Account. That’s because an FSA generally needs to be spent before the end of the plan year — if you don’t use all the money, you can only carry over some of it and any remaining balance is forfeited. (You can carry over up to $610 from 2023 into 2024.)

You can't contribute to an HSA and a traditional FSA in the same year. But if you have an HSA, you might be able to use what’s known as a Limited Purpose Flexible Spending Account (LPFSA) for dental and vision expenses. You’ll need to check with your plan to see if this option is available.

Managing your health care expenses should be a key part of your overall financial strategy — so consider putting an HSA or FSA to work for you.

508 words

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