Three Key Facts about HSA vs. FSA



SA or FSA? What's the difference and which one is better for me? Both an FSA and HSA allow you to save "pre-tax" on unreimbursed medical expenses. When you select your health plan, it is important to understand which of these will be most beneficial to you. Here's three key things for you to know:

#1: HSAs and FSAs do not work the same

There are many key differences between HSAs and FSAs. Right off the bat, we can look at what they both stand for: an HSA is a "Health Savings Account" while an FSA is a "Flexible Spending Account". Both accounts are contributed to through payroll deduction, however, with an FSA you set your contribution at the beginning of the year and you are not allowed to make adjustments throughout



the year. This prevents you from being able to make any contribution adjustments if there are any unforeseen expenses that you face during that year (unless you have a change in qualified change of life event).

With an HSA, the contributions are more flexible. At any time during the year the contributions to an HSA can be adjusted based on how much you want to contribute at that time. No qualified life event needed!

In addition, the money that is left over in an FSA at year-end is lost if unused*. In other words, any remaining FSA balances at the end of the year cannot be rolled into the next year (some plans allow up to \$500 to be rolled over). This is another reason that not being able to adjust your contributions is a downfall of an FSA. If you overestimate your expenses, you lose the money you don't spend! Ouch....that's lost money! With an HSA, any money that is left in the account at year-end is rolled over into the next year and is still available for you to use. This makes the HSA less stressful than the FSA.

Lastly, a major difference between an FSA and an HSA is the opportunity for investment. With an FSA, the contributions to the account sit in the account and are ineligible for investment. This means that the money in the account has no opportunity for growth. With an HSA, the money can be invested into the market if not being used. Thus, the funds that are left in the account are able to grow until you need them. Learn more with this video.

#2: HSAs can benefit you at retirement

Another benefit to HSAs are their usefulness in covering costs for Medicare. You may be too young today to be thinking about healthcare costs in retirement, but the real power of the HSA is the ability of it to grow and be used to pay for healthcare costs in

retirement. Many people mistakenly think that Medicare is free. It often comes as a surprise to learn that there are monthly premium costs associated with the various Medicare plans that are based off of yearly income. This premium can be paid for tax free out of an HSA. In addition, under Medicare Parts A and B, medical expenses regarding dental, hearing, and optical items are not covered. Therefore, you can use the money



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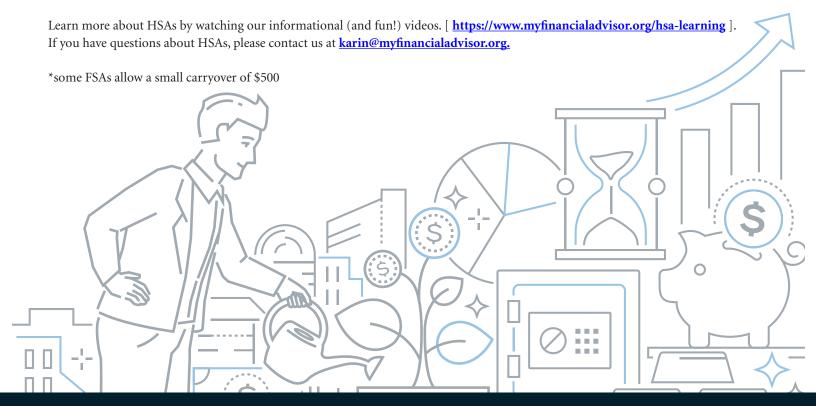
in your HSA to cover these expenses. Funds in your HSA can also be used to cover any prescription drug costs that are not covered by Medicare.

The benefit to paying for these expenses out of an HSA instead of an account like a 401(k) or IRA is the fact that withdrawals from an HSA are tax free. If you were to use funds in your 401(k) or IRA to cover your Medicare expenses, the funds would be taxed at your income rate. Learn more with this video.

Consider this! If you start at age 30 contributing to an HSA at \$1,600 per year (This will only cost you \$1,000 a year because of the tax savings on an HSA), you will accumulate \$183,989 by age 65 if you were able to earn a hypothetical return of 6% on your balance. This is money you can use to supplement your 401(k) and boost your retirement income.

#3: HSAs have more flexibility in claim reimbursement

One of the major perks of an HSA is its flexibility. An aspect that contributes to this flexibility is the ability to get reimbursed at any time. An HSA does not require you to submit the expense for reimbursement during the year that the expense is incurred. For example, if you pay for a medical expense out of your own pocket in 2020 and save the receipt, you can choose to receive the reimbursement in, say, 2026. The benefit of this is that the money that is in the HSA stays put and continues to grow until you need the funds in the account. By handling some expenses out of pocket and waiting for reimbursement until retirement (if possible), the extra money left in the HSA can boost your retirement income. Learn more with this video.



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