

FSA or HSA?

Smart ways to stash your cash

Looking for a clever way to maximize your money and your health? Consider choosing a savings account, whether an FSA ([Flexible Spending Account](#)) or HSA ([Health Savings Account](#)), to stash and spend pre-tax money on out-of-pocket medical expenses from co-pays to cough medicine or even child care.

This article will get you up to speed on both account types, their differences, how to use them and more. So, when you go through Open Enrollment this year, or if you experience a qualifying life event, you're educated and prepared to make the right choice. Head to the [Summary Plan Description](#) for more details.

What is an FSA?

An FSA is an employer-sponsored savings account that lets you pay out-of-pocket medical or dependent care expenses with tax-free dollars. An FSA is like a prepaid gift card with an expiration date. While some flavors of FSAs (mentioned below) have a small carryover allowance, generally speaking, funds will expire if not used within the plan year, or by May 31.

Are there different kinds of FSAs?

Yep, there are three — Health Care FSA, Limited Health Care FSA and Dependent Care FSA — with some differences. These plans offer additional saving accounts to get the most from your pre-tax dollars.

Health Care FSA can be used to pay for qualified medical expenses, such as prescriptions, eyeglasses, dental work and even acupuncture. For this plan year (June 1, 2024 – May 31, 2025), you can set aside up to \$3,200 of pre-tax dollars to pay for qualified medical expenses. The full goal amount is available for claims from the first day of your FSA plan's effective date. This type of FSA offered through ADP TotalSource allows up to \$640 carryover for the next plan year. Any unused funds over the \$640 will be forfeited.

Limited Health Care FSA may only be used for eligible dental and vision expenses. This option is available if you enroll in a qualified HDHP during your Open Enrollment period or during a qualified life event for coverage in the Plan Year. Like the Health Care FSA, you can set aside up to \$3,200 of pre-tax dollars from your paycheck to pay for qualified medical expenses this plan year (June 1, 2024 – May 31, 2025), and the full goal amount for this FSA is also available for claims from the first day of your FSA plan's effective date. This FSA also allows up to \$640 carryover for the next plan year. Any unused funds over the \$640 will be forfeited.

Dependent Care FSA can help you pay for the non-medical care of children under the age of 13 (or any dependents incapable of taking care of themselves, such as an elderly parent). This is for dependent care **while you're at work**. For the 2024-2025 plan year, you can deduct up to \$5,000 (\$2,500 if married filing separately). These funds are available after they're deducted from your payroll for use in eligible care. Any and all funds that are not used for services received by May 31st will be forfeited.

What is an HSA?

An HSA is a type of pre-tax savings account that works alongside high-deductible health plans (HDHPs) and covers qualified medical expenses similar to the Health Care or Limited Health Care FSA. For the 2024 plan year, the IRS allows you to contribute up to \$4,150 for an individual plan and \$8,300 for family coverage. While funds from an HSA may not be used to pay premiums, this account does allow you the opportunity to earn non-taxable interest. Another way to think of it is that an HSA is like a debit card with no expiration date that rolls over year after year.

Which one is right for me?

It's hard to say one account might be better than the other. Ultimately, it's about finding the best fit based on your life's needs. Here are some additional facts to consider.

- All of these accounts are pre-tax medical savings plans, meaning the money you contribute to your FSA or HSA accounts is not subject to payroll taxes, so you end up paying less in taxes and taking home more of your paycheck.
- FSAs are an excellent short-term savings option if you want to put aside pre-tax money to pay for eligible expenses in the year ahead.
- HSAs are great for short-term expenses as well as long-term investments. Your contributions can roll over year after year and earn interest, so it can be used later in life (like after retirement).
- If you pay high child or adult care costs out-of-pocket, a Dependent Care FSA allows you to save pre-tax money directly from your payroll to offset the cost of care.
- Limited Health Care FSAs can save an average of 30% on eligible out-of-pocket dental and vision expenses. This way, you can use your HSA to save for future healthcare expenses.

What can I spend money on?

HSA and Health Care or Limited Care FSA funds primarily help pay for things like co-pays, deductibles and prescriptions; dental care and cleanings; and eye exams and eyeglasses.

But, they can also be used for much more than qualified medical, dental and vision expenses. Here's a high-level overview of eligible products and services. Head over to the [IRS - Publication 502](#) for a complete list.

- Bandages, antiseptics and other First Aid supplies.
- Prescriptions, insulin and other medicines.
- Dental and vision care for you, your spouse and dependents.
- Medical equipment, family planning products, menstrual products, OTC medication, childbirth classes and more.

Fun fact: Traveling for a medical procedure allows you to spend your funds on airline tickets and related travel expenses.

Limited Expense Health Care FSA covers dental and vision exams, LASIK surgery, contact lenses, fillings, crowns, and orthodontia. Dependent Care FSA covers adult and child daycare facilities, babysitting, summer camps, and more. Or, check out this comprehensive list from the [IRS](#).

What else should I know?

Medical savings accounts are designed to save you money on medical expenses you would pay for anyway. The account limits may differ from year to year and these limits are set by the IRS. Take advantage of these benefits by strategically putting money away into the one that best fits your life.

As always, check out the [Summary Plan Description](#) for more information.