

Health Savings Accounts versus Flexible Spending Accounts

	<u><i>Health Savings Account (HSA)</i></u>	<u><i>Flexible Savings Account (FSA)</i></u>
Description	Approved by Congress in 2003, they are actual bank accounts in employees' names that allow employees to save and pay for medical expenses tax-free	Allows employees to pay out-of-pocket expenses for copays, deductibles and certain services not covered by medical plan, tax-free. Only option that allows employees to pay for dependent care tax-free
Individual Eligibility	Individual must enrolled in a qualified high deductible health plan	All individuals
Contribution Source	Employee and/or employer	Employee and/or employer
Account Owner	Individual	Individual
Underlying Insurance Requirement	Must be enrolled in a qualified high deductible health plan	None
Permissible Use Of Funds	Employees may use funds any way they wish. If used for non-qualified medical expenses, subject to current tax rate plus 10% penalty	Reimbursement for qualified medical expenses as defined by tax code
Cash-Outs of Unused Amounts (if no medical expenses)	Permitted, but subject to current tax rate plus 10% penalty (penalty waived after age 65)	Not permitted
Year-to-year rollover of account balance?	Yes, may roll over to use for subsequent year's health coverage	No. Use it or lose it (although there are sometimes grace periods extending beyond twelve months)
Does the account earn interest?	Yes	No
Portable?	HSA owned by individual: portable year-to-year and between jobs	Employee forfeits balance at end of year and upon termination

Note that HDHPexpert.com is not a tax advice service and all information provided herein is for reference purposes only. Always consult a qualified tax professional within the state your company is domiciled prior to making any financial decisions.