

HSA vs. FSA: What's the difference?

Health savings accounts (HSAs) and healthcare flexible spending accounts (FSAs) may be used to pay for the same types of expenses, with some exceptions. For example, HSA funds may be used to pay for medical continuation coverage or Medicare premiums; healthcare FSA funds cannot be used for these expenses. There are also other important differences between these accounts.

Health savings account (HSA)	Healthcare flexible spending account (FSA)
Both employees and employers may make contributions to an HSA. Funds are available for use as they are deposited into the account.	An FSA is typically funded by the employee. The entire annual election amount is available for use as of the employee's effective date or at the start of the plan year.
Any funds remaining in the HSA roll over from year to year so the account can grow over time. There are no limits to the amount that can roll over each year.	The IRS has a use or lose rule for FSAs. This means that, at year-end, you risk losing unused FSA funds. In 2023, the Board of Pensions FSA has a \$610 rollover feature that lessens this risk by letting you carry forward to the next year up to \$610 left in your account at year end. Because of the use or lose rule, it is important to estimate expenses carefully each year you enroll in an FSA.
An HSA earns interest and offers opportunities for investing when the balance reaches a certain threshold.	Funds in an FSA do not earn interest and cannot be invested.
The employee owns the HSA so it's fully portable, which means the employee takes the full balance with him/her at retirement or when changing jobs.	The FSA is not portable; the employee's participation stops when employment ends.
Employees must be enrolled in an HSA-compatible high deductible health plan (HDHP) to set up and/or contribute to an HSA.	Normally, employees cannot participate in a healthcare FSA if they are enrolled in a high deductible health plan (HDHP), unless they participate in a <i>limited purpose</i> FSA, which can be used together with an HSA. The limited purpose FSA works the same as a healthcare FSA except that it can be used to pay only eligible vision and dental expenses.

