TaxBrief
Keeping you informed

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Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs)

Tax-advantaged accounts like health savings accounts (HSAs) and flexible spending accounts (FSAs) can help taxpayers manage medical expenses while reducing taxable income. Although these accounts sound similar, they have important differences, including who can contribute and how funds can be used.

Key features of HSAs

An HSA is a tax-advantaged account you can use to pay for qualified medical expenses. To open an HSA, you must be enrolled in a **high-deductible health plan (HDHP)**.

- **Triple tax advantage:** Contributions are tax-deductible, earnings grow tax-free and withdrawals for qualified expenses are also tax-free.
- **Ownership:** The account is yours. Funds stay with you even if you change jobs, retire or switch health plans.
- **Rollover:** Unused funds roll over from year to year without limit.
- **Portability:** You can transfer or roll over an HSA between financial institutions.
- **Contribution limits:** For 2025, the maximum HSA contribution is $4,300 for individuals and $8,550 for families. For 2026, the limits increase to $4,400 for self-only coverage and $8,750 for family coverage. If you're age 55 or older, you can contribute an additional $1,000 as a catch-up contribution.

Typical expenses paid for with HSA funds include doctor visits, prescriptions, dental care, vision expenses, mental health services, medical equipment and more.

Key features of FSAs

An FSA is an employer-established benefit that lets employees set aside pre-tax money to pay for eligible medical expenses.

- **Tax savings:** Contributions are made pre-tax, lowering your taxable income.
- **Use-it-or-lose-it:** Funds must generally be used by the end of the plan year. Some employers offer either a grace period of up to 2.5 months or a carryover into the next plan year of up to $610 (2025 limit), but not both.
- **Employer-sponsored:** FSAs are only available if your employer offers them; you cannot open an FSA on your own behalf.
- **Contribution limits:** For 2025, employees can contribute up to $3,200 to a health care FSA. The dependent care FSA limit is $5,000 for single individuals or those married and filing jointly, and $2,500 for those married and filing separately.

  For 2026, the limits increase to $3,400 for medical FSAs and $7,500 for dependent care FSAs.

Qualified expenses for FSAs are similar to those for HSAs. In addition, a separate dependent care FSA may be available to cover eligible child or elder care costs.

Differences between HSAs and FSAs

While both accounts help save on health care costs, their rules and advantages differ.

Feature	HSA	FSA
Ownership	You own the account	Employer owns the account
Eligibility	Requires an HDHP	Available through participating employers
Rollover	Unused funds roll over every year	Typically "use it or lose it" each plan year, but some plans allow a short grace period or carryover
Portability	Follows you if you change jobs	Usually lose if you leave your employer
Investment options	Can be invested for tax-free growth	No investment options
Withdrawals after retirement	Allowed for medical expenses; taxable if used for non-medical expenses	Not available once employment ends

Who should consider an HSA?

HSAs are best suited for taxpayers who:

- Are enrolled in an HDHP
- Plan to save for current or future medical expenses
- Have enough cash flow to pay for routine care out of pocket, while building a tax-free nest egg for major expenses or retirement health care costs
- Prefer an account that carries over each year without a deadline to spend the balance

HSAs can also double as supplemental retirement accounts since, after age 65, withdrawals for non-medical expenses are allowed without penalty (though they'll be taxed as ordinary income).

Qualified expenses

Both HSAs and FSAs can pay for IRS-approved medical expenses, which include:

- Co-pays, deductibles and coinsurance
- Dental treatments
- Vision care, including glasses and contacts
- Prescription drugs

Funds for non-qualified expenses

- **HSAs:** If you're under age 65, non-qualified withdrawals are subject to income tax plus a 20% penalty. After age 65, non-qualified withdrawals avoid the penalty but are still taxed as ordinary income.
- **FSAs:** Using funds for non-qualified expenses violates plan rules and may result in having to repay the plan or pay additional taxes.

Who should consider an FSA?

FSAs work well for taxpayers who:

- Don't qualify for an HSA (e.g., because their plan isn't an HDHP)
- Prefer to reduce taxable income through pre-tax contributions
- Can reliably estimate annual health care costs to use most or all of their contributions each year
- Have access to an FSA through their employer

FSAs are especially helpful for predictable expenses like prescriptions, orthodontia payments or routine specialist visits.

Maximizing our tax savings

- **Estimate carefully:** For FSAs, estimate medical expenses realistically each year so you avoid contributing more than you can use.
- **Contribute early:** With FSAs, you can access your full elected amount at the start of the plan year, even though contributions are withheld each pay period.
- **Invest HSA funds:** Once you accumulate funds above your provider's cash balance minimum, consider investing HSA funds for tax-free growth.
- **Use receipts strategically:** HSA owners can reimburse themselves for past qualified expenses years later if they keep documentation, providing flexibility for unexpected costs.

If you have questions about what you can do with your HSA and FSA accounts, reach out to us today! We're happy to help you maximize your money.