



Decoding the Dollars: Unraveling FSA vs. HSA

YOUR COMPREHENSIVE GUIDE TO
HEALTHCARE SAVINGS

TABLE OF Contents

INTRODUCTION.....	[03]
SECTION 1.....	[04-07]
<i>HSA VS. FSA: OVERVIEW AND PLAN COMPARISON</i>	
SECTION 2.....	[08-15]
<i>WHAT DO WE KNOW ABOUT USERS?: CHANGES IN THE WORKFORCE, WHO ENROLLS IN THESE PLANS, WHAT DRIVES THEIR BEHAVIOR, AND HOW THEY CHOOSE TO SPEND THEIR FUNDS</i>	
SECTION 3.....	[16-20]
<i>EMPLOYER CONSIDERATIONS: WHY TO OFFER, HOW TO LEVERAGE THESE BENEFITS, AND STRATEGY TIPS</i>	
CONCLUSION.....	[21]

Introduction

It can be quite challenging to choose between an HSA (Health Savings Account) and an FSA (Flexible Spending Account) when offering benefits to your employees. Not only can the two be confusing, but they also come with different benefits, rules, and regulations. Because of this, it's essential that you understand the differences between the two so you can help your employees make the right decision based on their healthcare needs.

It's important that you carefully consider your individual needs when choosing between these two options. If you're looking for something in between, you might consider a Limited FSA. This option can be used for dental and vision expenses and has a lower annual contribution limit. Ultimately, understanding the benefits and features of each account can help you make an informed decision that will save you money in the long run.

HOW CAN YOU CHOOSE?

HSAs and FSAs are two popular healthcare savings options that provide individuals with tax advantages when it comes to managing their medical expenses. While both accounts offer benefits, they have distinct features that make them suitable for different financial situations and personal preferences.



SECTION ONE

HSA vs. FSA: Overview and Plan Comparison



What is a HSA?

A **Health Savings Account (HSA)** is a tax-advantaged account designed to help individuals with high-deductible health plans to save for their healthcare expenses. Qualified medical expenses that can be paid for using HSA funds include doctor visits, prescription medications, hospital stays, dental and vision care, and various other eligible healthcare services and products.

KEY FEATURES

1

TRIPLE-TAX ADVANTAGE

Contributions are tax-deductible, funds in the account grow on a tax-free basis, and withdrawals (if used for qualified medical expenses) are also tax-free.

2

CONTRIBUTIONS

The IRS sets HSA contribution limits and HDHP requirements (minimum deductible and maximum out-of-pocket) each year. The current limits can be found on the Plan Limits page at BenefitResource.com

3

ROLL OVER

The unused funds roll over from year to year, and individuals can use the account funds for eligible medical expenses tax-free.

4

PORTABLE

The account is owned by the individual, making it portable, regardless of their employer. Individuals can keep the account when they change jobs or retire.

5

INVESTMENT OPTIONS

Many HSAs offer investment options that allow individuals to grow their funds over time.



What is a FSA?

A **Flexible Spending Account (FSA)** is another tax-advantaged account that enables individuals to set aside pre-tax dollars to pay for eligible out-of-pocket health care expenses. Healthcare FSAs can be used to pay for a wide range of medical expenses that are not covered by insurance, including doctor visits, prescription medications, dental care, vision care, and medical supplies.



KEY FEATURES

1

TAX SAVINGS

Contributions made to the FSA are exempted from federal income, Social Security, and Medicare taxes, reducing the individual's taxable income.

2

USE OR LOSE RULE

FSAs have a use-or-lose rule that requires individuals to use the funds before the end of the plan year. However, some employers may offer grace periods and/or carryover options so that individuals can use the unused funds for future expenses.

3

NO OWNERSHIP

The account is owned by the employer, and individuals cannot take it with them when switching jobs or retiring.

4

CONTRIBUTIONS

The IRS sets FSA contribution limits and Medical FSA rollover limit each year. The current limits can be found on the Plan Limits page at [BenefitResource.com](https://www.benefitresource.com)

5

LIMITED FSA

Employers may offer a Limited FSA, which allows individuals to set aside funds for eligible dental and vision expenses.

Side By Side Comparison

HSAs and FSAs provide valuable tax advantages for healthcare expenses, but differ in terms of eligibility, contribution limits, carryover provisions, and ownership. The decision ultimately depends on an individual's specific financial situation, healthcare needs, and preferences regarding investment options and fund accessibility.

FACTOR	HEALTH SAVINGS ACCOUNT (HSA)	FLEXIBLE SPENDING ACCOUNT (FSA)
Account Owner	Employee	Employer
Funding of Account	Employee, employer, and/or 3rd party	Typically employee, but employers are permitted
Annual Rollover	Yes	IRS permits limited rollover that employer can allow
Portability	Yes	No
Claims Adjudication Requirement	No	Yes
Eligible Expenses	Defined by Section 213(d)	Defined by Section 213(d); employers can restrict further
Funds Can Earn Interest or be Invested	Yes	No
Permissible for Non-qualified Expenses	Yes, but normal tax + penalty applies	No
Insurance Requirements	Covered by HSA-compatible health plan	Requirements defined by employer
Contribution Limits	Annual limits set by IRS	Annual limit set by IRS; employer can set lower limit
Limits on When Services are Eligible and Must be Reimbursed	Expenses eligible and can be withdrawn anytime after HSA is established	Services must occur during Plan Year (option for grace period) and reimbursed no later than end of run-out period
Changes to Elections	No limitations	Requires a qualifying event
Compatibility with Other Plans	Compatible with Limited FSA or HRA	Not compatible with HSA

SECTION TWO

What Do We Know About Users?



Changes in the Workforce

The General U.S. workforce has undergone a significant demographic shift in recent years, with millennials and Gen Xers emerging as the dominant generations. Together, these two cohorts now account for nearly 70% of today's workforce.

The combined presence of millennials and Gen Xers in the workforce has ushered in a new era of diversity, as these generations bring distinct perspectives, skill sets, and work styles to the table. However, it's important to note that there is still a significant presence of baby boomers and older workers who contribute their wisdom and experience to the mix.



ADJUST TO THE CHANGING DYNAMIC

As the dynamics of the workforce continue to evolve, organizations are recognizing the need to adapt their practices to attract, engage, and retain the millennial and Gen X talent. Companies are offering flexible work arrangements, investing in technology and digital tools, and fostering a culture that values personal development and work-life balance. By embracing the strengths of these generations, the General U.S. workforce is poised to thrive in an increasingly interconnected and rapidly changing global economy.

FSA User Analysis



WHO ENROLLS IN AN FSA?

With an average age of 47, Gen Xers have become the primary beneficiaries of these valuable financial tools. This dominance in FSA participation highlights their growing responsibility for managing healthcare expenses, both for themselves and potentially for their families. As this generation navigates the challenges of midlife, they are leveraging FSAs as a means to mitigate the rising costs of healthcare, ensuring their financial well-being and supporting their health and that of their loved ones.

BY THE NUMBERS

PARTICIPATION

- 37 million Americans rely on FSAs to receive the healthcare they need.¹
- The average age of an FSA Participant is 47 years old, and nearly 1 in 2 FSA Participants are Gen X.²

CONTRIBUTIONS

- FSA contributions differ by age: those under 25 contribute an average of \$431, while those over 65 contribute an average of \$1,405.³
- The average overall contribution is \$1,265 for Medical FSAs and \$859 for Limited FSAs.³

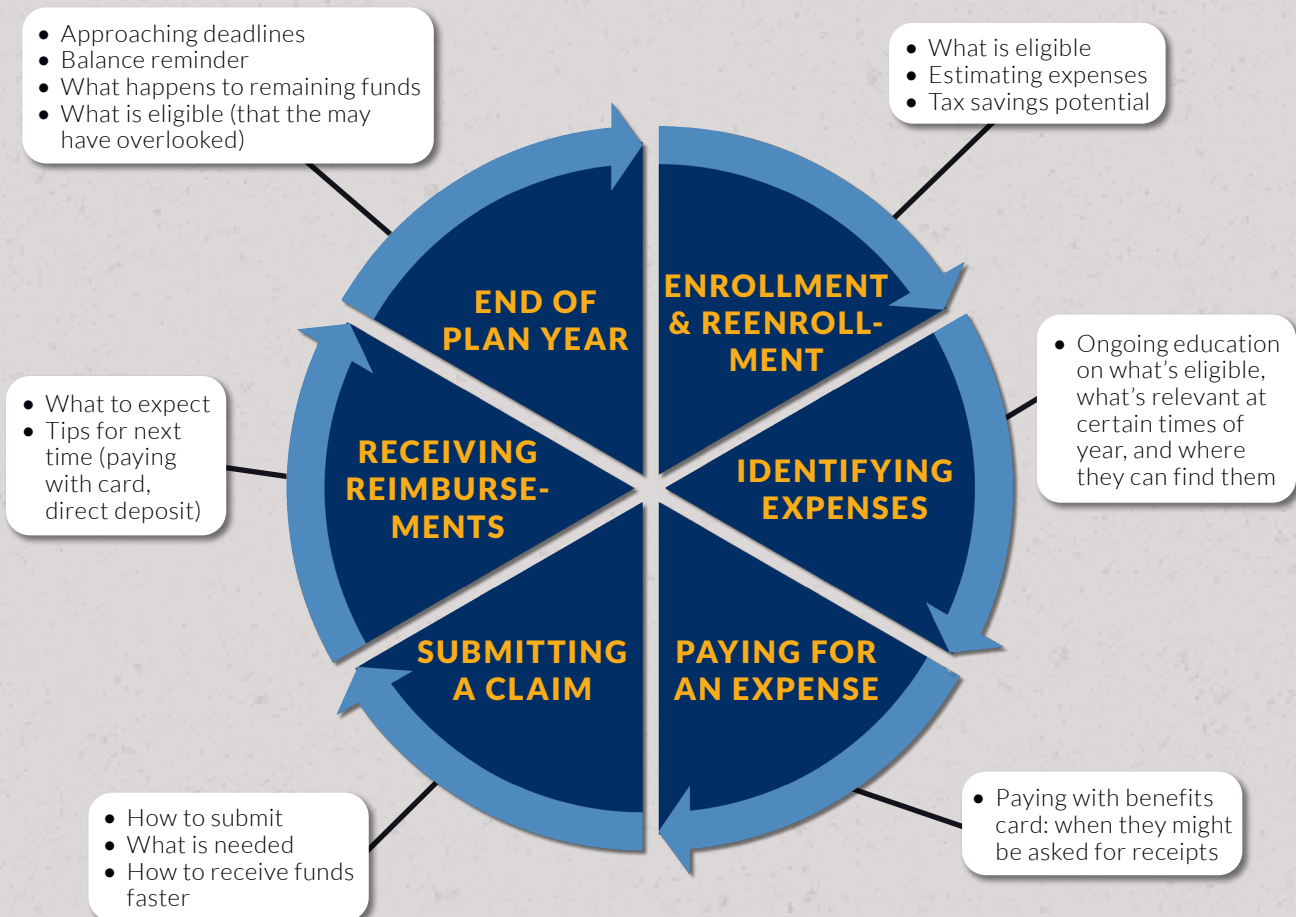
LEARNING

- FSA participants prefer learning via brochures/flyers, and are less likely to watch videos.²
- If they have questions, FSA participants prefer to call over other communication methods.²

WHAT DRIVES FSA PARTICIPANT BEHAVIOR?


FSAs are an excellent tool for managing healthcare expenses, and their usage is typically event-driven. Common events that trigger FSA usage include a change in family status, such as getting married, divorced, or having a child. Additionally, qualifying life events such as a job change, retirement, or a significant change in health benefits can also trigger the use of an FSA.

Moreover, FSA users often leverage their account's rollover or grace period provisions to maximize their benefits. Some plans allow a portion of unused funds to carry over to the next year or provide a grace period within which to spend the remaining balance. Aware of these opportunities, individuals make concerted efforts to exhaust their FSA funds by purchasing items that fall within the eligibility criteria before the rollover or grace period expires.



HOW ARE PARTICIPANTS USING THEIR FSA FUNDS?

1 IN 3 REPORT THEY WOULD CUT BACK on vision, dental visits, routine doctor expenses, and OTC medicines if they didn't have an FSA.⁵



Nearly **9 IN 10 EMPLOYEES** report using a card to access their FSA funds.²

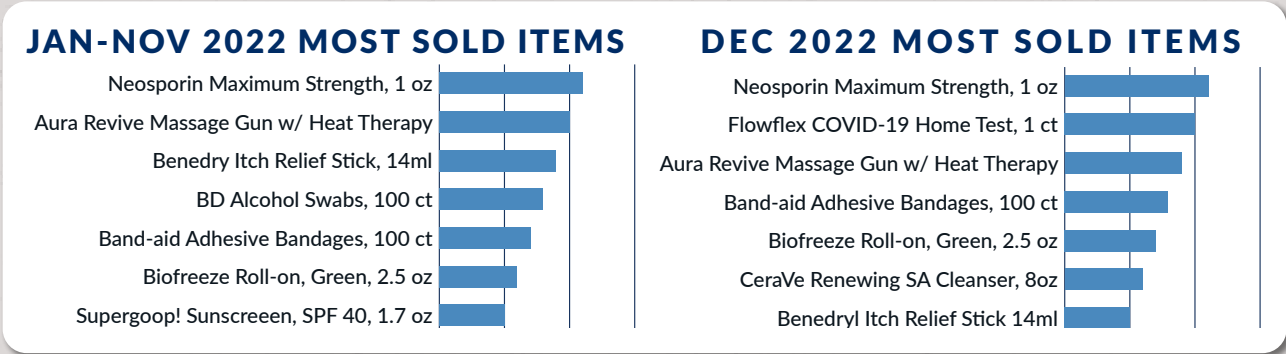


97% OF CLAIMS are submitted electronically (via the web or a mobile device).²



SPENDING PATTERNS

FSA usage is typically cyclical with a defined plan year. Often, users buy what is necessary for health and well-being through the year (i.e., prescriptions, medical supplies, and regular doctor visits). By identifying their healthcare needs and budgeting accordingly, FSA participants can effectively allocate funds to cover these anticipated expenses and prioritize their overall well-being.



PURCHASE INTENT: WHEN USERS SPEND FSA FUNDS

	Gen Pop	Families & Heavy Users	Savvy Shoppers	Overwhelmed & Confused	CRM / Store Customers
When I needed a specific product	50%	52%	48%	50%	59%
As soon as I had access to the funds	31%	27%	36%	33%	30%
When I had a major purchase (>\$500)	29%	36%	24%	25%	20%
Within 30 days of my annual deadline	24%	26%	23%	23%	21%
When I checked my balance/portal	18%	23%	14%	16%	16%
When I received a reminder from my TPA	7%	11%	4%	5%	4%
Within 7 days of my annual deadline	6%	10%	4%	4%	9%

HSA User Analysis



WHO ENROLLS IN AN HSA?

HSA participants tend to be a little younger but have larger balances. Younger individuals' reduced healthcare needs and the tax benefits of HSAs encourage saving and investment, resulting in increased account balances. The utilization of HSAs by a younger demographic, coupled with larger account balances based on age, demonstrates their recognition of the long-term benefits and financial advantages offered by this account type.

PARTICIPATION

- 34 millions HSAs were in use in June 2022, up 9% YOY from June 2021.⁴
- The average age of a HSA Participant is 42 years old, and nearly 1 in 2 FSA Participants are Gen Y.²

HSA BALANCE

- The average HSA balance is up 27% in the last 5 years, currently sitting at \$3,265.²
- HSAs opened in 2022 had an average balance of \$1,436 by year end, compared to \$1,420 in 2021.⁴
- 70% of participants have a balance of <\$2,000.²

LEARNING

- HSA participants prefer learning via infographics, videos, and decision support tools.²
- If they have questions, HSA participants prefer live chat over other communication methods.²

HSA CUSTOMER JOURNEY

HSA users fall into 3 different categories. Which category a participant falls into is determined by their spending patterns. The spending patterns generally differ based on age as well as account utilization.



SPENDING FOCUSED

- Tends to contribute lower amounts and spends all funds time and time again
- Often confuses HSA with an FSA
- Bases their contribution on their planned spend
- May have chronic conditions
- Unaware of all eligible expenses
- Likely in their 30s and married, starting a family
- Low-mid HHI



SAVING FOCUSED

- Funds more and spends more, only saving a little
- Actively looks for savings
- Worried about large expenses
- Eventually starts saving and investing their funds
- Looks to have an emergency fund
- Unaware of all eligible expenses
- Likely in their 40s and married with children
- Mid HHI



INVESTMENT FOCUSED

- Maxes out their contributions
- Never or rarely uses their HSA funds; is instead focused on growing their funds
- Pays current expenses out of pocket
- Unaware of all eligible expenses
- Long-term focus for their HSA
- Higher HHI

HOW ARE PARTICIPANTS USING THEIR HSA FUNDS?

HSA spending patterns reflect the remarkable flexibility of these accounts, allowing users to spend their money only when necessary. The inherent beauty of an HSA lies in its adaptability, as individuals have the freedom to choose when and how they utilize their funds.

The ability to spend money on qualified health-related expenses at the appropriate time not only promotes fiscal responsibility but also provides users with peace of mind. HSA users can rest assured that their funds are dedicated to improving their health and well-being, supporting their overall financial stability.



MOST PARTICIPANTS USE AN HSA FOR THEIR CURRENT EXPENSES.²

Nearly **1 IN 3 PARTICIPANTS** use their HSA monthly.



\$58 OF \$100 funds deposited are used in a year.



BALANCES INCREASE WITH AGE.²

GEN Z	MILLENNIAL	GEN X	BOOMER
\$1,110	\$1,848	\$2,951	\$4,423

THOSE WHO INVEST DO SO WISELY.²



Approximately **5-7%** are investing their HSA.
Average investment balance: **\$9,906**

SECTION THREE

Employer Considerations



Employer Considerations

By carefully considering the factors below, employers can make an informed decision when they are deciding between offering an HSA or FSA. This ensures that the chosen healthcare savings option aligns with the company's goals, employee needs, and budgetary constraints, while also meeting the diverse needs of their employees.

1. PLAN ELIGIBILITY

HSAs are available only to employees enrolled in high-deductible health plans (HDHPs), whereas FSAs generally do not have specific plan requirements. Employers should assess if their health insurance plan offerings align with the eligibility criteria for HSAs and if enough employees will be able to take advantage of the benefits.

2. CONTRIBUTION LIMITS

Employers may choose HSAs if they want to offer a savings vehicle that enables employees to accumulate funds over time. On the other hand, FSAs may be more suitable for employees who have lower healthcare expenses or prefer to contribute smaller amounts.

3. FUND ACCESSIBILITY

HSAs provide employees with greater flexibility as the funds are individually owned and portable, while FSA funds are generally tied to the employer. Employers should consider if their workforce has a high turnover rate or if employees will value the ability to retain and grow their healthcare savings beyond their current employment.

4. PLAN YEAR END (FSA)

FSAs typically have a "use it or lose it" rule where any unspent funds at the end of the plan year are forfeited. However, there are options to provide a grace period or limited carryover, which gives employees more time to utilize their funds. Employers should consider the impact of these provisions on employee satisfaction and if they align with the financial needs and spending patterns of their workforce.

5. ADMIN COSTS

Employers should weigh administrative costs that come with implementing and maintaining an FSA or HSA and align the preferred account based on their resources and budget.

6. EMPLOYEE EDUCATION

Providing clear information about how each account works, their advantages, and potential tax savings can help employees make informed decisions. Employers should assess their capacity to educate employees effectively and determine which account will be easier to explain and promote within their organization.

Why You May Need to Consider Offering Both

By offering both HSAs and FSAs, employers can give their employees more options for financing their healthcare expenses.



EASE THE TRANSITION FROM ANOTHER HEALTH PLAN TO A HDHP

An HSA is available only to those employees who are enrolled in a high-deductible health plan (HDHP). If an employee is enrolled in a non-qualifying health plan, changing to an HDHP may not be an option. Additionally, some employees may face coverage challenges, such as being covered under a spouse's health plan or not meeting the employer's eligibility criteria. In these cases, an FSA can provide a more accessible option for them to manage their healthcare expenses.

NOT ALL EMPLOYEES ARE ELIGIBLE TO ENROLL IN AN HSA

An HSA is available only to those employees who are enrolled in a high-deductible health plan (HDHP). If an employee is enrolled in a non-qualifying health plan, changing to an HDHP may not be an option. Additionally, some employees may face coverage challenges, such as being covered under a spouse's health plan or not meeting the employer's eligibility criteria. In these cases, an FSA can provide a more accessible option for them to manage their healthcare expenses.





EMPLOYEES MIGHT NOT HAVE THE MONEY OR HAVE LARGER EXPENSES

While HSAs offer tremendous benefits, such as tax advantages and the ability to roll over balances from year to year, not everyone has the financial resources to make contributions regularly. Employees may have large medical expenses that require immediate attention, leaving them unable to make contributions to their HSA. In these instances, an FSA can provide some much-needed financial relief, as it allows employees to use pre-tax dollars to pay for out-of-pocket expenses.

PRESERVE HSA FOR MEDICAL EXPENSES (INSTEAD OF DENTAL AND VISION)

HSAs are primarily designed to cover medical expenses, which are typically more expensive than dental and vision expenses. By offering an FSA, you can help employees manage their dental and vision expenses while keeping their HSA funds reserved for medical expenses. This approach helps to stretch the HSA dollars further and keeps employees from using HSA funds on non-qualified expenses.



DON'T CHOOSE - OFFER BOTH

By offering both accounts, you can provide your employees with the right mix of benefits to help them manage their healthcare expenses effectively. In addition, offering both accounts can help attract and retain top talent and result in a more satisfied and productive workforce.

How You Can Leverage These Benefits

These accounts offer several wonderful perks that can help reduce the out-of-pocket costs associated with medical treatments and prescriptions. Here's how to offer these benefits to your employees in the most effective way possible.

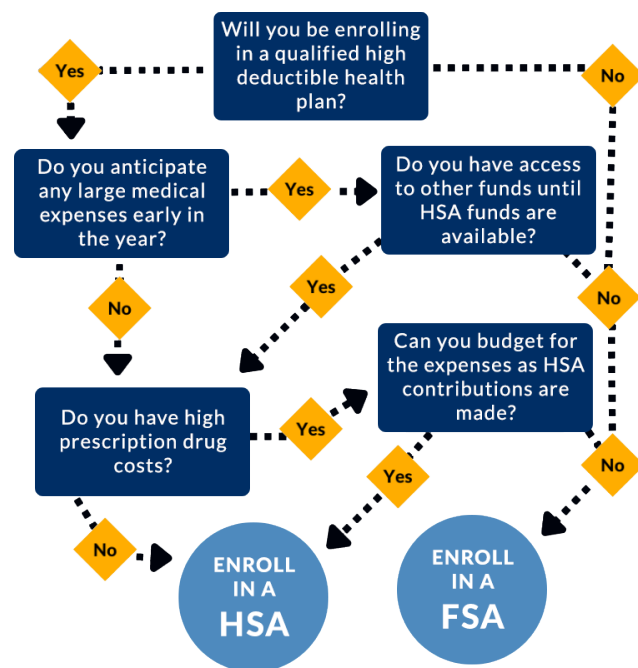
PROVIDE A CHOICE

Employees benefit significantly when they have the choice to opt between an HSA and an FSA.

An HSA offers greater flexibility and portability, allowing employees to use their contributions to current medical expenses or saving them for future medical expenses. On top of that, HSA earnings grow tax-free and can be carried forward from year to year (unlike FSA).

On the other hand, an FSA only covers expenses within the plan year, and unused balances can be forfeited.

The choice between HSA and FSA ultimately depends on employees' individual needs, so it's important to emphasize the differences between the accounts and empower each employee to choose what works best. By providing both options, you give employees the ability to choose which plan best suits their individual needs.



ROLE OF LIMITED FSA

A Limited FSA offers a flexible alternative to the traditional FSA. This type of FSA offers qualified health care expenses solely for vision and dental expenses. Eligible expenses include deductibles, copayments, and coinsurance, and medical, vision and dental expenses not covered by other insurance plans. This can provide peace of mind for employees who may be hesitant to enroll in an FSA. The plan coverage period can last up to 12 months or by the end of the employer's health plan.

Conclusion

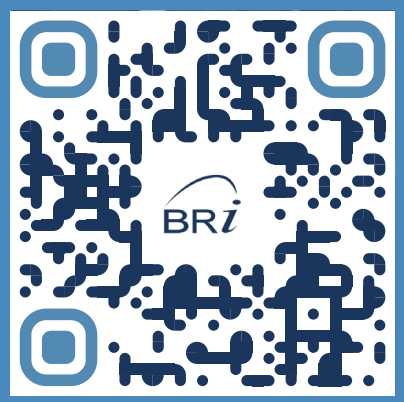
Overall, the key takeaway is that both HSA and FSA benefits can provide valuable support to employees and businesses alike. By listening to employee feedback on what they value most when it comes to healthcare offerings and tailoring benefit options accordingly, organizations can determine which type of account best suits their needs. Whether you're focusing on budget savings or offering supplemental coverage as they prepare for retirement, leveraging these benefits together can help maximize investment return. With both HSAs and FSAs having different advantages – depending on the participant – it is important for employers to commit to a thoughtful selection process in order to find the right solution for their company.

If you are interested in exploring various available HSA or FSA benefits for your business, we urge you to request a proposal from us today! Contact the BRI team member in your city today to schedule a free personal consultation, or click the button below.

[REQUEST A PROPOSAL](#)

SOURCES

1. ECFC. (n.d.). By the numbers - employers council on flexible compensation - ECFC. By The Numbers. <https://ecfc.org/general/custom.asp?page=BytheNumbers>
2. Source: BRI Metrics as of 1/23
3. Spiegel, J. (2022, May 26). Findings from EBRI's Flexible Spending Account Database, 2020. EBRI. <https://www.ebri.org/health/hsa-database/content/findings-from-ebri-s-flexible-spending-account-database-2020>
4. Devenir Research (2022, September 20). 2022 Midyear Devenir HSA Research Report. Devenir. <https://www.devenir.com/research/2022-midyear-devenir-hsa-research-report/>
5. Visa Annual Healthcare Research – August 2022



READY TO GET STARTED?
CONTACT US TODAY!

Benefit Resource (BRI) administers pre-tax accounts, lifestyle benefits, and COBRA/direct bill nationwide. We strive to make benefits easy with simplified administration, quality service, and solutions that meet your needs. Learn more about us by scanning the QR code above.

 *Benefit Resource, LLC*
245 Kenneth Drive, Rochester, NY 14623-4277
BenefitResource.com