

# BluePriority<sup>SM</sup> FLEX

## Flexible Spending Accounts

Flexible spending accounts or FSAs are another way your employees can take a more active role in their health care choices — with the benefit of tax savings. And, FSAs are a win-win for small businesses: they can reduce your payroll taxes and offer your employees a way to save on health expenses and dependent care.

There are three basic types of flexible spending accounts:

- **Medical Reimbursement Account** — Allows employees to set aside a portion of pre-tax wages to cover eligible medical expenses.
- **Dependent Care Reimbursement Account** — Allows employees to set aside a portion of pre-tax wages to cover expenses for the care of a child, elderly parent, or other dependent.
- **Premium-Only Plan** — Converts employee portion of insurance premiums from an after-tax expense to a pre-tax expense.

## HSA vs FSA

### WHAT'S THE DIFFERENCE BETWEEN HSAs AND FSAs?

Both provide tax benefits, but there are several differences between HSAs and flexible spending accounts. The biggest and most important difference is that HSA balances can roll over from year to year and continue to grow tax-deferred. Money in a flex plan must be spent by the end of the year, and it also can't be invested.

### CAN YOU OFFER BOTH AN HSA AND A FLEXIBLE SPENDING PLAN?

Your employees cannot use both an HSA and a flexible spending account to pay health care costs. However, you can offer an HSA with a **limited flexible benefit plan** that restricts reimbursements to vision and dental care, and other qualified expenses.



	<b>Health Savings Account (HSA)</b>	<b>Flexible Spending Account (FSA)</b>
<b>Account ownership</b>	Employee	Employer
<b>Health plan required</b>	Yes – can be only be offered with a qualified, HDHP and employees cannot have other insurance coverage (except as allowed)	No insurance coverage required
<b>Funding</b>	Employee and/or Employer	Employee and/or Employer
<b>Qualified medical expenses</b>	All eligible (IRS code 213) medical expenses (includes long-term care services)	All eligible (IRS code 213) medical expenses
<b>Claims</b>	May be paid from HSA, as dollars are available in the account	Can be made any time during the plan year
<b>Carry over of funds</b>	Funds roll over from year to year – no “use it or lose it” requirement	Unused dollars are retained by the employer
<b>Portability of funds</b>	Yes – funds move with the employee if they change jobs	No – dollars are retained by the employer
<b>Dollars used for other than medical expenses</b>	No – money used for other than qualified medical expenses will be taxed, and subject to a 10 percent tax penalty (after 65, taxation only)	Yes – can be used for over-the-counter medications, and uncovered services such as eyeglasses, dental care, and chiropractic services
<b>Catch-up funding</b>	Individuals age 55 and older can add \$700 per year (2006), indexed thereafter	No