

# ST. GERMAIN WEALTH MANAGEMENT GROUP



## Making Sense of HSAs and FSAs

With average family health insurance premiums for employer coverage averaging over \$25,000 annually, some employees feel the squeeze. In this environment, understanding and using Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs) can help families take more control of their healthcare finances.<sup>1</sup>

### What Are HSAs and FSAs?

HSAs and FSAs are special accounts designed to help manage medical expenses.

If you have an HSA, you must also be enrolled in a high-deductible health plan (HDHP). You contribute to the account, and your employer can also choose to contribute. Funds roll over from year to year.

FSAs are usually employer-sponsored accounts. You contribute pretax dollars through payroll deductions. However, the funds must typically be used within the plan year unless your employer offers a grace period or limited rollover.

Both accounts allow you to use pretax dollars to pay for qualified medical expenses, such as copays, prescriptions, or over-the-counter medications. The one that may be best for you can depend on many factors.

### Key Differences Between HSAs and FSAs

Feature	HSA	FSA
Who owns the account?	You	Your employer
Contributions	You and your employer	You (via paycheck deductions)
Funds roll over?	Yes	Sometimes (depends on employer rules)
Investment options	Yes	No
Portability (can you take it with you?)	Yes	No

### Contribution Limits:

For 2026, the IRS allows individuals to contribute up to \$4,400 and families up to \$8,750 to an HSA. People over 55 can contribute an extra \$1,000 annually. The FSA has a contribution limit of \$3,400.<sup>2,3</sup>

### Why These Accounts Matter More Than Ever

Rising premiums and deductibles mean Americans are shouldering more health care costs than ever. In the past decade, the average premium for worker family coverage has increased by 26 percent, while wages have only increased by 28.6 percent.<sup>1</sup>

Employers are also increasingly shifting healthcare costs to workers through narrower provider networks, more prior authorizations, and tiered drug pricing systems. That's where HSAs and FSAs come in. By allowing workers to set aside pretax money, these accounts help manage healthcare costs and create a strategy for expected and unexpected expenses.

Remember that if you spend your HSA funds for non-qualified expenses before age 65, you may be required to pay ordinary income tax and a 20 percent penalty. After age 65, non-qualified expenses are taxed as ordinary income taxes on HSA funds, and no penalty applies. HSA contributions are exempt from federal income tax but not from state taxes in certain states.

## Real-Life Scenarios Where HSAs and FSAs Help

- **Having a Baby:** New parents can face an increase in health-related costs, ranging from prenatal care and delivery to postnatal checkups and baby essentials. An FSA can help cover many of these expenses with pretax funds, whereas an HSA can carry over unused funds for future pediatric visits.
- **Job Change:** Moving to a high-deductible plan may make you eligible for and your HSA funds remain yours even if you switch employers or retire, making it a flexible long-term tool.
- **Chronic Illness Diagnosis:** Copays, prescriptions, and specialist visits add up quickly. An HSA or FSA can manage the blow, and an HSA has investment options that are available with some plans.
- **Caring for Aging Parents:** From prescriptions to home health aides, caregiving costs can be significant. FSAs can help cover some expenses. For those with HDHPs, an HSA provides a long-term strategy for health-related caregiving costs.

## Other HSA/FSA Tips

- Use online calculators to see what might work for you.
- Prepare for known medical expenses to use funds strategically.
- Monitor your balances online and review your list of eligible expenses.
- If you have an HSA, see if there is an investment option associated with the account.

Remember: during any qualifying life event, like marriage, a new child, or a job change, review your plan because these events may allow you to enroll in or adjust your benefits outside Open Enrollment.

## Final Thoughts

Understanding how HSAs and FSAs work and using them effectively can make a meaningful difference during life's most important transitions.

If you haven't explored these options, now may be the time to start.

Sources:

1. KFF.org, October 22, 2025, Kaiser Permanente, March 26, 2026 / 2. IRS.gov, 2026 / 3. KFF.org, October 22, 2025

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