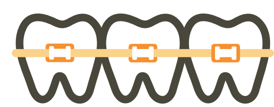
You have an HSA. Do you also need a limited-purpose health FSA?

If you have a Health Savings Account (HSA), you may also have access to a limited-purpose health Flexible Spending Account (LPFSA). An LPFSA can be used to pay qualified vision and dental expenses, but generally not other health care expenses. Like other FSAs, you forfeit any money you don't spend from your LPFSA, unless your employer allows you to carry over a portion of the balance. So, do you want to fund both accounts? Here are four reasons you may want to consider it:

1. You already contribute the maximum to your HSA

In 2020, if you are enrolled in individual coverage you can contribute up to $3,550 to an HSA, and if you are enrolled in family coverage you can set aside $7,100. If you aren't already contributing this much, consider increasing your HSA contribution instead of enrolling in an LPFSA. That's because you don't risk losing money you contribute to an HSA—it's yours to save for the future if you don't need it this year.

2. You have known vision and dental expenses



If you wear contact lenses, or update your prescription glasses once a year, you probably have a good idea how much those will cost each year. If your kid is about to start orthodontia, you know what the treatment plan is and how much the cost will be along the way.

Similarly, if you plan to have a vision correction procedure, you can plan for that ahead of time. If you are maxing out your HSA for long-term savings, you can use an LPFSA to pay these expenses this year and keep saving the money in your HSA.

WHAT YOU CAN DO: Before annual enrollment, think about how much money you can be reasonably sure you will spend next year on vision and dental expenses, including things like glasses and contact lenses, dental cleanings or orthodontia. Ask how much planned treatments will cost. That way, you can contribute enough to cover your costs, but not so much that you stand to lose the money.

3. You want to maximize your tax savings

Contributions to both your HSA and your LPFSA are free from federal income taxes, so maxing out your contributions is one way to trim what you pay each year. But don't put more in your FSA than you actually think you will spend, or you will lose it at the end of the year. (Some employers allow you to carry over as much as $500 to the next year, if you don't spend it in the current year.)

4. You want to save your HSA for the future

One of the best things about the Health Savings Account is that you can keep saving the balance until you need it—whether that means an unexpected medical expense during your career or health care needs during retirement. You can also invest your balance in mutual funds, and the gains will be tax-free,* as long as you use the money for qualified medical expenses.

If you can contribute to both an HSA and an LPFSA, you can use the FSA to cover vision and dental expenses—and save the HSA for the future.

* With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation. The triple tax advantages are only applicable if the money is used to pay for qualified medical expenses.

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