



SMU HUMAN RESOURCES

## Would you like to reduce your taxable income? Enroll in a HSA or FSA!

Weighing the pros and cons of HSAs (Health Savings Account) and FSAs (Flexible Spending Account) can be a bit daunting, especially when deciding which account (and Medical plan) will be most beneficial to you and your family. Both HSAs and FSAs, **which require a new election each year**, enable you to accumulate funds **tax-free** to pay for out-of-pocket qualified healthcare expenses. In addition to co-payments and deductibles, you can use the money for a variety of other expenses, including prescription medications, orthodontia and other dental services, contact lenses, and eyeglasses. For a full list of qualified healthcare expenses please visit: <https://www.irs.gov/publications/p502>.

### Are you eligible for a HSA?

HSAs are not available to everyone. This is the first key difference between HSAs and FSAs. Only individuals enrolled in a high-deductible health plan (HDHP) can enroll in a HSA. For SMU employees, that will be the \$2,800 or \$5,000 HDHPs. In addition, the HDHP must be your only health insurance plan. You must not be enrolled in Medicare, and you cannot be claimed as a dependent on someone else's tax return.

### Differences between HSAs and FSAs

SMU's HSA is administered by BenefitWallet/Mellon Bank and SMU's FSA is administered by Discovery Benefits. There are several differences between these two accounts. The following table highlights these differences:

	Health Savings Account (HSA)	Health Care Flexible Spending Account (HCFSAs)
<b>Eligibility Requirements</b>	You must be enrolled in the SMU \$2,800 or \$5,000 High Deductible Health Plan (HDHP).	No eligibility requirements.
<b>Contribution Limits</b>	2020 contributions are capped at <b>\$3,550 for individuals</b> or <b>\$7,100 for families</b> . Individuals age 55 or older may contribute an additional \$1,000.	2020 contributions are capped at <b>\$2,700</b> .
<b>Tax Benefits</b>	<b>Triple tax savings!</b> (1) Contributions to a HSA reduce income subject to federal income tax, most state income tax, and FICA tax, (2) <b>tax-free investment earnings</b> , and (3) as long as you use HSA funds for qualified healthcare expenses, you do not pay taxes on withdrawals.	<b>Double tax-savings!</b> (1) Contributions to a HCFSAs reduce income subject to federal income tax, most state income tax, and FICA tax, and (2) as long as you use HCFSAs funds for qualified healthcare expenses, you do not pay taxes on withdrawals.
<b>Changing Contribution Amount</b>	You can increase or decrease how much you contribute to the account anytime during the year.	Contribution amounts can be adjusted only at open enrollment or within 31 days of a life event such as marriage, employment change, birth of a child, etc.
<b>Rollover</b>	No "use it or lose it" rule! Unused balances roll over each year. Consider maximizing your contributions, not only for current expenses, but also to build savings to pay for healthcare expenses during your retirement years!	There is a "use it or lose it" rule! You can use the funds in your account to pay for qualified expenses incurred during the current calendar year. Unused funds are forfeited.
<b>Connection to Employer</b>	Your HSA is yours. If you leave SMU, you will still have access to your account.	In most cases, you will lose your HCFSAs with a job change, but HCFSAs continuation through COBRA enables you to retain access to the funds you already contributed.

### Reduce Your Taxable Income and Save!

Let's say you and your family average \$2,000 a year in out-of-pocket health care expenses (medical, pharmacy, dental, and vision expenses) that your SMU health plans don't fully cover (copays, deductibles, and coinsurance).

• **If you enroll in the \$2,000 Deductible PPO**, contribute \$2,000 (or more) to the HCFSAs to reimburse yourself for the \$2,000 estimated out-of-pocket expense. The maximum annual HCFSAs contribution is \$2,700.

• If you enroll in the **\$2,800 or \$5,000 HDHP**, contribute \$2,000 (or more) to the HSA to reimburse yourself for the \$2,000 estimated out-of-pocket expense. The maximum annual HSA contribution is **\$3,550 for an individual** and **\$7,100 for family coverage**, plus an additional \$1,000 if you are age 55 or older.

	No HCFSA or HSA Contribution	HCFSA Contribution	HSA Contribution
<b>Monthly Income</b>	\$3,917	\$3,917	\$3,917
<b>Monthly Contribution</b> Pretax Deduction	No Contribution	\$167	\$167
<b>Monthly Taxable Income</b> Less FSA/HSA Contribution	\$3,917	\$3,750	\$3,750
<b>Monthly Federal Income &amp; Social Security Tax**</b>	\$1,279	\$1,224	\$1,224
<b>Monthly Remaining Income</b>	\$2,638	\$2,526	\$2,526
<b>Monthly Tax Savings</b>	\$0	(\$55)	(\$55)
<b>Annual Tax Savings</b>	\$0	(\$660)	(\$660)

\*Assumes \$47,000 annual salary \*\*Assumes 25% tax bracket & 7.65 FICA tax (SS & Medicare)

## Why Use an HSA for Retirement?

Do you think Medicare will cover all of your healthcare expenses when you retire? Think again! According to Fidelity Investments' annual retiree health care cost estimate, a 65-year old couple retiring this year will need an estimated **\$285,000** to cover health expenses throughout retirement. For individuals retiring this year, a 65-year old male will need an estimated **\$135,000** to cover health expenses in retirement, while females will need **\$150,000**, primarily due to the fact that women are expected to live longer than men. Similar to an Emeriti Health Account, HSA's triple tax advantage makes it a great way to save for healthcare expenses incurred during your retirement years.

- Your contributions to the HSA are made via pre-tax payroll deductions, reducing your federal and state income tax liability – and they're not subject to FICA taxes.
- Your account balance grows tax-free. Any interest you earn is nontaxable.
- Withdrawals for qualified healthcare expenses are tax-free.
- Unlike a 403(b), 401(k) or IRA, the HSA does not require you to begin withdrawing funds at a certain age. They can remain untouched as long as you like, although you may no longer contribute to an HSA once you reach age 65 and are eligible for Medicare.

## Dependent Care FSA

SMU's Dependent Care FSA (DCFSA) is administered by Discovery Benefits. A DCFSA enables you to save an average of 30% on eligible dependent care services, such as preschool, summer day camp, before or after school programs, and child or adult daycare. You fund your DCFSA via pre-tax payroll deductions. Making pretax contributions to a DCFSA reduces income subject to federal income tax, most state income tax, and FICA.

**The maximum amount an individual or a married couple can claim is \$5,000.** If you are married and your spouse's employer also offers a DCFSA, you can each contribute to your own DCFSA. If you are married and filing separately, the maximum each of you can claim is \$2,500. You cannot both claim reimbursement for the same dependent care expense.

**Child and Dependent Care Tax Credit:** You may also benefit from the Child and Dependent Care Tax Credit when you file your taxes. In cases where your dependent care expenses exceed the DCFSA contribution limit, you may be able to claim this credit for the excess expenses. Be sure to consult an accountant so you fully understand your options.

## Questions?

**HSA:** Call BenefitWallet at (877) 635-5472 or visit the BenefitWallet website at <https://mybenefitwallet.com/>.

**HCFSA or DCFSA:** Call Discovery Benefits at (866) 451-3399 or visit the Discovery Benefits website at <https://www.discoverybenefits.com/>.