

NEWS & VIEWS

FSA, HRA, and HSA Comparison Chart

May 15, 2014

ELIGIBILITY, FUNDING, & TAXATION			
	Flexible Spending Arrangements (FSAs)	Health Reimbursement Arrangements (HRAs)	Health Savings Accounts (HSAs)
Description	Created under a 125 Cafeteria Plan to reimburse employees for qualified medical expenses	An employer established account that reimburses employees for qualified medical expenses	A tax exempt employee account established to pay for qualified medical expenses
High Deductible Health Plan (HDHP)	Not Required	Not Required	Required <u>2014 Annual Deductible</u> <ul style="list-style-type: none"> • \$1,250 – Self Only • \$2,500 – Family <u>2015 Annual Deductible</u> <ul style="list-style-type: none"> • \$1,300 – Self Only • \$2,600 – Family
Who is eligible?	Any employee, subject to employer-designed exclusions	Any employee, subject to employer-designed exclusions. Eligibility may or may not be tied to HDHP	Employee / Individual covered by HDHP & no other non-HDHP coverage
Who can create an account?	Employer	Employer	Employer or Individual
Who Funds It?	<ul style="list-style-type: none"> • Employee salary reduction dollars • Employer 	Employer only	<ul style="list-style-type: none"> • Individual • Employee salary reduction dollars • Employer
Who can contribute?	Employer, Employee, or Both	Employer only	Employer, Employee, or Both
Maximum Contribution Level	<u>2014</u> The \$2,500 cap will be indexed for inflation for future tax years beginning with 2014 <u>2015</u> The maximum limit may be indexed for inflation	Set by employer	<u>2014 Maximum Contribution</u> <ul style="list-style-type: none"> • Individual – \$3,300 • Family – \$6,550 <u>2015 Maximum Contribution</u> <ul style="list-style-type: none"> • Individual – \$3,350 • Family – \$6,650
Catch-Up Contributions	Not Allowed	Not Allowed	Allowed ages 55 and older until they are enrolled in Medicare at age 65 – \$1,000
Out-of-Pocket Maximum for HDHP	Not Available	Not Available	<u>2014</u> <ul style="list-style-type: none"> • Individual – \$6,350 • Family – \$12,700 <u>2015</u> <ul style="list-style-type: none"> • Individual – \$6,450 • Family – \$12,900
Interest and Earnings	No. No interest or earnings accrue	Yes. Earnings are tax free if used for qualified medical expenses	Yes. Earnings are tax free if used for qualified medical expenses
Are Contributions Taxed?	No federal or state income tax* or social security / Medicare tax	No federal or state income tax* or social security / Medicare tax	No federal or state income tax* or social security / Medicare tax
Distributions for Non-Medical Expenses (Including Cash-Outs)	Not Allowed	Not Allowed	Subject to tax & 20% penalty (with certain exceptions)

ACCOUNT USE			
	Flexible Spending Arrangements (FSAs)	Health Reimbursement Arrangements (HRAs)	Health Savings Accounts (HSAs)
Qualified Expenses	Qualified medical expenses as defined in IRC 213(d), including over-the-counter drugs if prescribed	Qualified medical expenses as defined in IRC 213(d), including over-the-counter drugs if prescribed	Qualified medical expenses as defined in IRC 213(d), including over-the-counter drugs if prescribed. Premiums for (1) Medicare, (2) COBRA, (3) healthcare while receiving unemployment compensation are qualified
Health Insurance Premiums	No	Yes	No, with exceptions
Long-Term Care (LTC) Reimbursable	LTC Premiums – No LTC Expenses – No	LTC Premiums – Yes LTC Expenses – No	LTC Premiums – Yes LTC Expenses – Yes
Portability	No. Employees also forfeit unused balances	At the discretion of the employer	Yes. Employee owns the account
Balance Carry-Over	Limited; Plans can either allow up to \$500 carryover or a grace period of up to two and a half months	Yes	Yes
Discrimination	IRC Section 125 and 105(h) – Yes	Employer contributions must not discriminate in favor of highly compensated individuals as provided by IRC Section 105(h)	If employer contributions are done through a Section 125, the employer must comply with nondiscrimination requirements of the 125 Plan
Reimbursement Order**	FSAs are last resort and cannot reimburse expenses that have been reimbursed elsewhere	Claims are submitted to the HRA first and the FSA reimburses any amounts not reimbursed by the HRA	Should not have HRA & FSA that cover same expenses as the HDHP
Funding Requirement	Uniform coverage rule applies. Claims must be paid without regard to contribution amount	Not required to pre-fund - uniform coverage rule does not apply	Funds must be present before withdrawal is made. Employer may contribute to HSA over time or all at once
COBRA Continuation	Subject to COBRA	Subject to COBRA	Not subject to COBRA
COBRA Premiums	No	Yes	Yes
ERISA Requirements	Yes	Yes	<ul style="list-style-type: none"> • HDHP Piece – Yes, if Employer sponsored • Savings/investment portion – No
ERISA Form 5500	Applies. Exception for small (< 100 participants) unfunded plans	Applies. Exception for small (< 100 participants) unfunded plan	Does not apply unless it is an ERISA plan
ERISA SPD & other disclosures, & adherence to benefit claims procedures	Yes	Yes	Does not apply unless it is an ERISA plan
HIPAA Portability, certificate of creditable coverage and health status nondiscrimination	Applies. Exception for health FSAs funded with salary reductions	Yes	Yes, for HDHP and for an employer-sponsored HSA
HIPAA Privacy	Yes	Yes	Does not apply unless it is an ERISA plan

* State taxes could apply in some states.

** Employer can draft HRA and FSA plan documents so that HRA reimburses only after FSA amounts are exhausted.

Summary of Health Care Reform Changes

- Effective 1/1/2011, Over-the-Counter (OTC) drugs or medicines will only be reimbursable if they are prescribed by a medical practitioner.
- The penalty increases from 10% to 20% for using HSA funds for non-qualified medical expenses. After turning 65, this penalty will disappear. Income tax will still need to be paid on any health care account money spent on non-qualified medical expenses.
- Effective 1/1/13, \$2,500 limit on pretax employee contributions to health care flexible spending accounts (FSAs). The Health FSA limit is indexed for inflation.

