



PRE-TAX HEALTH ACCOUNTS: A Breakdown

SIDE-BY-SIDE COMPARISONS

OF 3 HEALTH ACCOUNTS PROVIDED BY PRIMEPAY BENEFIT SERVICES

FSA

FLEXIBLE
SPENDING
ACCOUNT

HRA

HEALTH
REIMBURSEMENT
ARRANGEMENT

HSA

HEALTH
SAVINGS
ACCOUNT

TOPIC:	FSA FLEXIBLE SPENDING ACCOUNT	HRA HEALTH REIMBURSEMENT ARRANGEMENT	HSA HEALTH SAVINGS ACCOUNT
Account Ownership			
Who owns the account?	While the employer owns the actual account, the employee owns the funds in it.	The employer.	The individual/employee.
Who funds the account and how is it funded?	<p>It is typically funded by the employee but can be funded by the employer.</p> <p>Each year an employee designates the election amount. It is divided by the number of times they are paid throughout the year. On a per pay basis, the pre-tax wages are deposited into the employee's account.</p>	Only the employer funds the account. Employees are not allowed to contribute to it but it can be funded from the general assets of the employer.	<p>The employer and employee may fund the account. If the employer is contributing, they can choose how often they will do so. For example, on a per pay basis or at certain times throughout the year.</p> <p>The employee can also contribute on a per pay basis and may change their contribution at any time during the plan year. They can contribute pre- and post-tax funds. Additionally, others can contribute on the employee's behalf.</p>
Is there a maximum election?	Yes, the maximum contribution is set by the IRS. This amount is annually indexed for inflation. Employer contributions do not count towards the maximum.	The employer sets the maximum amount that can be reimbursed each year.	The IRS sets the maximum HSA contribution. This amount is indexed annually for inflation. Amounts contributed by an employer counts towards the maximum.
What is the balance available?	Under the Uniform Coverage Rule , the maximum reimbursement amount must be available at all times during the coverage period. That amount includes both the employee's annual election and any non-elective employer contributions. Therefore, a participant may be reimbursed the full annual election, regardless of the year-to-date payroll deferrals made.	The employer reimburses expenses when presented with a valid receipt.	The Uniform Coverage Rule does not apply. A participant may be reimbursed only their year-to-date contributions, less any withdrawals for reimbursement.
Is it a personal account?	Yes.	No.	Yes.
Does interest accrue on the account funds?	Interest does not accrue.	Interest does not accrue.	Interest can be accrued tax free in qualified HSAs.

TOPIC: Profitability Eligibility	FSA FLEXIBLE SPENDING ACCOUNT	HRA HEALTH REIMBURSEMENT ARRANGEMENT	HSA HEALTH SAVINGS ACCOUNT
Is the account a COBRA-eligible benefit?	<p>A former employee cannot elect COBRA upon termination unless there is a positive balance in the account.</p> <p>If elected, the former employee will be eligible to continue the medical FSA benefit until the end of the plan year.</p>	<p>An HRA is a COBRA-eligible benefit and an employee has to be given the option to elect it, regardless of whether they have a positive account balance. If elected, the employee is allowed to continue the HRA as long as they remit timely COBRA payments and the employer must make contributions to the account as they would for any other similarly situated active employee. While an employer can allow an HRA to be elected separately from the medical plan, those employers with general purpose HRAs will want to tie the election of the HRA to the medical plan due to potential Affordable Care Act (ACA) excise tax issues.</p> <p>The employer can also design their HRA with a <i>spend down</i> feature which will allow terminated employees to spend down the balance in their HRA without having to elect COBRA.</p>	<p>An HSA is an account owned by an employee. As the employee has full ownership of the funds at the time they are placed into the account, there is no need to offer COBRA.</p>
Does the account permit rollovers?	<p>Yes, but limited. An FSA plan may include either a Grace Period or a Carryover Provision, but not both.</p>	<p>Yes. An employer may design the plan to allow unused balances to rollover to the next plan year.</p>	<p>Yes. Unused amounts in the account will roll over from year to year. If elected, the former employee will be eligible to continue the medical FSA benefit until the end of the plan year. Participants are also eligible to make a one-time, tax-free, trustee to trustee transfer from an IRA to an HSA.</p>
Who is eligible? Are self-employed individuals (including more than 2% shareholders of an S corporation and partners in a partnership) eligible to participate?	<p>Common law employees are eligible to participate. This is subject to employer-designed exclusions. Self-employed, partners in a partnership or 2% shareholders of an S corp are not eligible to participate.</p>	<p>Common law employees are eligible to participate. This is subject to employer designed exclusions. Self-employed individuals, partners in a partnership, or more than 2% shareholders of an S corp aren't eligible.</p>	<p>Any individual who is covered under a high deductible health plan (HDHP) -- as defined in Section 223 of the Internal Revenue Code (IRC) -- is not entitled Medicare and not claimed as a tax dependent. is eligible to participate. With certain exceptions, the individual cannot have any non-HDHP coverage.</p> <p>Self-employed individuals (includes partners in a partnership and greater than 2% shareholders in an S corp) are eligible, but not for participation in a cafeteria plan used to fund an HSA in their workplace. However, contributions made to an HSA by a self-employed individual are deductible on their personal income taxes.</p>

TOPIC: Eligibility Expenses/Claims	FSA FLEXIBLE SPENDING ACCOUNT	HRA HEALTH REIMBURSEMENT ARRANGEMENT	HSA HEALTH SAVINGS ACCOUNT
What type of corresponding health plan is allowed/required?	To avoid excise taxes imposed under the ACA, employers offering general purpose FSAs must also offer a qualified medical plan.	<p>Non-applicable large employers (ALEs) who don't offer other group health coverage to their employees are eligible to offer a Qualified Small Employer HRA (QSEHRA).</p> <p>Small employers who offer group health coverage are eligible to offer a general purpose HRA.</p> <p>To avoid excise taxes imposed under the ACA, ALEs must combine their HRA with a qualified medical plan if it is designed to reimburse medical expenses. A standalone HRA can be offered only if excepted benefits (dental and vision) will be reimbursed.</p>	Contributions to an HSA can only be made when the account is paired with a qualified HDHP.
Can account funds be used for non-medical expenses?	No. The health/medical portion of an FSA can only be used for expenses, as defined under Section 213(d) of the IRC.	No. Only expenses defined under Section 213(d) of the IRC can be reimbursed under an HRA. An employer has the option to limit the type of expenses they will reimburse.	Yes. However, funds used for non-medical expenses are taxed as income and incur a 20% penalty. After age 65, there is no penalty.
What medical expenses are eligible for reimbursement?	<p>Any unreimbursed medical expenses, as specified in Section 213(d) of the IRC incurred during the coverage period.</p> <p>Qualified long-term care services cannot be reimbursed.</p>	<p>Any unreimbursed medical expenses as specified in Section 213(d) of the IRC incurred while coverage is in effect.</p> <p>Long-term care services (if the HRA is a flexible spending arrangement) cannot be reimbursed.</p>	<p>Any unreimbursed medical expenses (as specified in Section 213(d) of the IRC) of the account holder, spouse, or dependents incurred after the HSA is established (including premiums for COBRA insurance, long-term care insurance, health insurance while drawing unemployment compensation; or if 65 or older —any health insurance except a Medicare supplemental policy).</p>
What is the tax treatment for the account?	<p>Contributions to FSAs are tax free and reduce annual taxable income.</p> <p>Employers will not pay FICA (Federal Insurance Contributions Act) and FUTA (Federal Unemployment Tax Act) on the money that employees contribute to an FSA.</p>	<p>Reimbursements to the employee are tax free as long as they are used to pay for medical expenses as specified in Section 213(d) of the IRC.</p> <p>Qualified reimbursements made to employees by the employer are tax deductible to the employer.</p>	<p>Pre-tax contributions made by the employee to an HSA reduces taxable income. Contributions made by an employer to an HSA are also excluded from the employee's gross income and are tax deductible by the employer. Provided the employee uses HSA funds to pay for expenses as specified in Section 213(d) of the IRC, reimbursements to the employee are tax free.</p>

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To be reimbursable, must claims be incurred during the current coverage period?	Yes.	Medical expenses must be incurred while HRA coverage is in effect in order to be reimbursed tax free. However, claims incurred but not reimbursed in one year (due to an insufficient HRA balance) can be reimbursed in a subsequent year provided the participant is covered under the HRA when the claim was incurred, and remains covered the following year. HRA plan sponsors may limit the period during which participants can submit claims.	Distributions for qualifying medical expenses incurred after the HSA is established will be tax free. The expense does not have to be reimbursed at the time it is incurred. An account holder could elect to maintain receipts for a period of years before reimbursement.
Is expense substantiation required?	Yes.	Yes.	No. However, an individual HSA owner must retain the records.
Is claims adjudication required? That is, must someone other than the individual covered process & approve the claim?	Yes.	Yes.	No. However, an individual HSA owner must retain the records.
How does the ACA impact the account?	To avoid excise taxes, employers offering general purpose FSAs must also offer a qualified medical plan. If the employer is contributing to the account, their contribution cannot exceed more than two times the employee's election or, if greater, the employee's election plus \$500.	To avoid excise taxes, employers offering HRAs must also offer a qualified medical plan (unless the HRA is a limited benefit plan covering only dental and vision expenses or QSEHRA). If the employer does not condition participation in the HRA on election of the employer's medical plan, the employer will be responsible for reporting the HRA as part of annual ACA reporting.	The ACA does not impact HSAs.

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Expenses/Claims

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Can these
accounts be
offered together?

FSA's can be offered with HRAs. A traditional, general purpose FSA will make an individual ineligible for an HSA. However, the employer can offer either a limited purpose FSA or a high deductible FSA and offer both types of accounts.

An employer can offer both an HRA and an FSA. The employer can draft their documents to dictate which account will be primary in reimbursing expenses. An HRA can be combined with an HSA if it is a limited purpose HRA, or if it is a post-deductible HRA and is paired with a HDHP. It can only reimburse expenses once the HSA minimum deductible is reached.

An HSA can be paired with an FSA or an HRA provided they are high deductible accounts and cannot reimburse expenses until after the HSA minimum deductible is reached. An HSA can also be paired with a limited purpose HRA or FSA.



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