

COMPARISON OF HEALTH SAVINGS ACCOUNTS (HSAs), FLEXIBLE SPENDING ACCOUNTS (FSAs) & HEALTH REIMBURSEMENT ACCOUNTS (HRAs)

WE MAKE
THE COMPLEX
SIMPLE

	HSA	Health Care FSA	HRA
What does it stand for?	Health Savings Account	Health Care Flexible Spending Account	Health Reimbursement Arrangement
Who owns it?	Employee	Employer	Employer
Who funds the account?	Employee, employer and others	Typically by employee, but employer can contribute	Employer only
What type of corresponding health plan is allowed?	Eligibility to contribute requires opening and maintain a qualifying high deductible health plan (HDHP)	A full purpose health care FSA is compatible with any type of health plan. A limited purpose health care FSA is typically used in conjunction with participation in a HSA and it's qualifying HDHP	A HRA will work with a carrier designated HRA compatible plan.
Can unused amounts carry over?	Yes. The individual owns the account and any contributions made to it, regardless of the source or timing of the contribution.	Yes. The employer can choose to have up to \$500 of unused funds rollover to the new plan year or they may choose a grace period. Neither of these options are required.	Yes. The employer can choose to have unused funds roll over from year to year. However, rollover is not required.
Is the account portable between employers?	Yes. The individual owns the account	No. FSAs cannot be rolled over to a new employer.	No. A HRA may be designed to allow former employees to use their funds, but it cannot be rolled over to a new employer.
Does interest accrue?	Interest may accrue in a HSA, depending on the custodian and the type of deposit account.	Interest does not accrue.	Interest does not accrue.
Is the account subject to COBRA continuation?	No. A HSA is not a health benefit plan subject to continuation.	COBRA rights apply.	COBRA rights apply.

	HSA	Health Care FSA	HRA
How is it funded?	Money is deposited directly into the account. Contributions can be made by employee or other person on an “after-tax” basis, by employer or through pre-tax salary deduction.	Based on the employee’s annual election, the employer designates a specific amount of wages to be deducted from the employee’s payroll check pre-tax.	The employer contributes a set amount and a plan year basis.
What is the contribution amount?	Annual contribution limits are established by the IRS and indexed for inflation.	Effective January 1, 2013, the maximum amount of contribution will be \$2,500.	No IRS restrictions. For HRAs, the employer determines the amounts although medical carrier restrictions may be imposed.
Is there a “catch-up” contribution provision for older workers?	Employees age 55 and older may contribute more to the account per year until they are enrolled in Medicare.	Not available	Not available
Can the account be funded with pre-tax salary deduction?	Yes. State taxes may apply.	Yes. State taxes may apply.	Not available
When are funds available?	A HSA is a bank account owned by the employee. The funds are available as they accrue in the account.	Funds are available for use with eligible health care expenses on the first day of the plan year.	The plan design may or may not impose a vesting schedule at the employer’s discretion.
What are the tax benefits for employees?	Contributions are federal tax deductible, interest and capital gains on investments are federal tax-free. Withdrawals for qualified health expenses are federal tax-free. State taxes may apply.	Employee contributions are exempt for federal and FICA tax as well as most state and local tax. Reimbursements are tax-free.	Reimbursements are federal and state income tax-free.

	HSA	Health Care FSA	HRA
What health care expenses can be paid from the account?	Funds can be used for any qualified health expense as defined under Section 213(d) of the Internal Revenue Code (IRC), except for health insurance premiums, with specific exceptions.	Funds can be used for any qualified health expense as defined under Section 213(d) of the IRC. Long-term care services are tax-deductible, but not reimbursable.	Funds can be used for any qualified health expense as defined under Section 213(d) of the IRC, including long-term care insurance premiums. Premiums under employer pre-tax plans are not Section 213(d) eligible, although they are tax-deductible.
Can funds be used for non-health care expenses for those under age 65?	Non-health care distributions must be included in gross income and are subject to a 20% penalty tax. An exception to the 20% penalty applies to distributions for non-qualified expenses for those individuals who are disabled or deceased.	No. A health care FSA can only be used for eligible health care expenses.	No. Funds may only be used for eligible health care expenses.
Can funds be used for non-health care expenses for those over age 65?	Yes. Non-health care distributions must be included in gross income, but are not subject to the additional 20% tax penalty.	No. The health care portion of a FSA can only be used for eligible health care expenses.	No. Funds may only be used for eligible health care expenses.
Can COBRA premiums be reimbursed from the account?	Yes. Distributions to pay premiums for COBRA are tax-free.	No. A health care FSA may not reimburse participants for premiums paid for health insurance. This includes premiums paid for health coverage under a plan maintained by the employer or the employee's spouse or dependent.	Yes. COBRA premiums may be reimbursed from the account at the discretion of the employer.
Must a health care expense be incurred during the plan year the contribution is made?	No. Expenses are eligible for reimbursement once an HSA is established.	Yes. Expenses must be incurred during the plan year of the contribution and any applicable grace period.	No. However, reimbursements cannot be made for expenses incurred prior to the account being established.

	HSA	Health Care FSA	HRA
Is the annual amount of the contribution available on the first day of coverage?	Only the amount currently available in the HSA may be used to pay or reimburse qualified expenses.	Yes. The total amount elected by the employee for the plan year must be available to spend on the first day of the year, regardless of the amount contributed.	The employer-designated HRA funds may be available on the first day of the plan year. However, funds can be prorated during the year if the employer elects to do so.
Is use of a health payment card allowed?	Yes. A debit card may be used to pay or reimburse a qualified health expense.	Yes. A debit card may be used to pay for eligible expenses if the plan permits.	Yes. A debit card may be used to pay for eligible expenses if the plan permits.
Is third party substantiation of expenses required?	No. If audited by the IRS, the employee is responsible for showing that HSA funds were used only for qualified health expenses.	Yes. Each request for reimbursement must be substantiated before it can be reimbursed.	Yes. Each request for reimbursement must be substantiated before it can be reimbursed.
Can the account be integrated with other accounts?	Yes. A HSA can be combined with a limited purpose health care FSA for use with eligible dental and vision expenses.	A health care FSA is compatible with a HRA, but only a limited purpose health care FSA can be integrated with a HSA.	A HRA is compatible with a FSA, but only a limited purpose HRA can be integrated with a HSA.

This communication is not intended as legal or tax advice. Please contact a legal or tax professional for personal advice on eligibility, tax treatment and restrictions. Federal and state laws and regulations are subject to change.