

# A Comparison of HSAs, Health Care FSAs and HRAs

	HSA	Health Care FSA	HRA
<b>What does it stand for?</b>	Health Savings Account	Health Care Flexible Spending Account	Health Reimbursement Account
<b>Who owns it?</b>	Employee	Employer	Employer
<b>Who is eligible to open and maintain an account?</b>	Eligible Individuals must NOT be: <ul style="list-style-type: none"> <li>- Covered by any other medical plan that is not a high-deductible health plan.</li> <li>- Entitled to Medicare benefits</li> <li>- Claimed as a dependent on another person's tax return.</li> </ul>	An employee whose employer offers an FSA option.	An employee whose employer offers an HRA.
<b>Is it a non-forfeitable account?</b>	Yes	No	No
<b>What type of corresponding health plan is allowed?</b>	A high-deductible health plan is required in order to qualify for an HSA.	Any type of health plan arrangement is allowed.	Any type of health plan arrangement is allowed.
<b>Can unused amounts carry over?</b>	Yes. The individual owns the account and any contributions made to it, regardless of the source or timing of the contribution.	No. Unused funds remaining at the end of the plan year are forfeited to the employer. However, an employer may opt to provide a grace period of up to 2½ months after the end of the plan year to incur reimbursable claims.	Yes. Unused funds remaining at the end of the plan year can be carried over to the following year if the employer/plan sponsor chooses to configure the account accordingly.
<b>Is the account portable between employers?</b>	Yes. When leaving an employer, the individual owns the account and can maintain it with the original custodian/trustee, or withdraw HSA funds and redeposit them into another open HSA within 60 days to avoid a tax penalty. Individuals may also request an HSA trustee-to-trustee transfer in which funds are transferred directly from the old trustee to the new trustee.	No. FSAs cannot be rolled over to a new employer.	No. The account is not portable between employers. If an employee leaves, their remaining balance is forfeited and remains with the employer.

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<b>Does interest accrue?</b>	Interest can be accrued on a tax-deferred basis in qualified HSAs	Interest does not accrue.	Regulations do not prevent interest accrual, but typically, employers do not choose to fund interest accruals.
<b>Is the account subject to COBRA continuation?</b>	No, but since an HSA is portable and owned by the employee, the individual may continue to use it post termination.	COBRA rights apply, with continuation period sometimes limited to the end of the plan year.	COBRA rights apply.
<b>How is it funded?</b>	Money is deposited directly into the account. Contributions can be made by employee through lump sum contributions or pre-tax payroll deductions. Other persons on an "after tax" basis, or an employer may also contribute.	A set amount of pre-tax wages designated by the employee is held in a notional account and used to help pay claims for eligible expenses. Funds remain with the employer until used.	The employer determines a set amount of funds for each covered individual or family to be held in a nominal account, and used to help pay claims for eligible expenses.
<b>What is the contribution amount?</b>	In 2009 annual contributions are allowed tax deductible up to \$3,000 for individual coverage and \$5,950 for family coverage. These limits are established by the IRS and indexed for inflation. If the full amount has not been funded in the calendar year, additional contributions can be deposited through the April 15 tax deadline.	No restrictions. For health care FSAs, the employer determines the minimum and maximum amounts.	No restrictions. For HRAs, the employer determines the contribution amount and any account maximums.
<b>Is there a "catch up" contribution provision for older workers?</b>	Employees from age 55 and up to when they are enrolled in Medicare may contribute more to the account per year. In 2009, and annually thereafter, an additional \$1,000 contribution is allowed.	Not applicable	Not applicable
<b>Is a pre-tax salary reduction to fund account allowed?</b>	Yes.	Yes.	No, employer-funded only.
<b>Is vesting allowed?</b>	An employee is always 100% vested in these funds.	Employee-contributed funds are 100% vested, but may be forfeited.	IRS guidance on HRAs does not address vesting and it is not typically required.

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<b>Do non-discrimination rules apply?</b>	Employer contributions offered under an IRS Section 125 cafeteria plan (e.g. matching, incentives) are subject to non-discrimination rules. Employer contributions made outside of an IRS Section 125 cafeteria plan are subject to a comparability requirement, i.e. all employees receive the same dollar amount.	Yes. IRS regulations require non-discrimination testing at least once a year to ensure FSA plans do not discriminate in favor of highly compensated employees or key employees regarding benefits provided under the FSA plan or their eligibility to participate. Testing always includes eligibility, contributions, benefits and key employee concentration.	HRAs are subject to the non-discrimination rules contained in I.R.C. Section 105.
<b>What is the tax treatment for employers?</b>	Employer contributions may qualify as a deductible business expense and are exempt from FICA and other employment taxes. Employee contributions made through pre-tax cafeteria plan salary reduction are not subject to employer FICA and other employment tax.	Employer contributions may qualify as a deductible business expense and are exempt from FICA and other employment taxes.	Employer contributions may qualify as a deductible business expense and are exempt from FICA and other employment taxes.
<b>What is the tax treatment for employees?</b>	Reimbursements are tax-free and excludable from employee's income.	Employee contributions to an FSA are made on a pre-tax basis, and therefore reduce annual taxable income. Reimbursements are tax-free and excludable from an employee's taxable income.	Reimbursements are tax-free and excludable from employee's income.
<b>What expenses qualify for distribution?</b>	Any otherwise unreimbursed expenses that are defined under §213(d) of IRC, except that amounts distributed to pay health insurance premiums are not qualifying expenses even though tax deductible under §213(d). Premiums are allowable for: (1) any health insurance (other than a Medicare supplement policy) for a person age 65 or older, (2) COBRA, (3) long-term care premiums, and (4) health care while receiving unemployment compensation.	Any otherwise unreimbursed medical expenses that are defined under §213(d) of IRC, except that health insurance premiums and long-term care services are not reimbursable even though tax deductible under §213(d).	Employers configure the account to reimburse all or a subset of any otherwise unreimbursed expenses that are qualified under 213(d) of IRC. This can include eligible health insurance and long-term care insurance premiums. However, long-term care services and premiums for coverage under employer pre-tax plans are not reimbursable even though tax deductible under 213(d).
<b>Can funds be used for non-medical expenses for those under age 65?</b>	Non-medical distributions must be included in gross income and are subject to a 10% penalty tax. An exception to the 10% penalty applies to distributions for ineligible expenses for those individuals who are disabled.	No. The health portion of an FSA can only be used for qualifying expenses.	No. Funds may only be used as described above.

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<b>Can funds be used for non-medical expenses for those over age 65?</b>	Yes. Non-medical distributions must be included in gross income, but are not subject to the additional 10% tax penalty.	No. The health portion of an FSA can only be used for qualifying expenses.	No. Funds may only be used as described above.
<b>Can COBRA premiums be reimbursed from the account?</b>	Yes. Distributions to pay premiums for COBRA are tax-free.	No. A health FSA may not reimburse participants for premiums paid for other 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.
<b>Must a medical expense be incurred during the plan year the contribution is made?</b>	No. However, no reimbursements can be made for expenses incurred prior to the account being established.	Yes. Expenses must be incurred during the plan year of the contribution. If applicable, medical expenses from the previous plan year can be reimbursed during a grace period of up to 2½ months.	No. However, reimbursements can not be made for expenses incurred prior to the account being established.
<b>Is the annual amount of the contribution available on the first day of coverage?</b>	Only the amount contributed to date is available for reimbursement.	Yes. The total amount elected by the employee for the plan year must be available on the first day, regardless of the amount contributed.	The employer-designated HRA amount may be available on the first day of coverage, but can be prorated during the year, at the election of the employer.
<b>Can changes be made to contribution/election amounts?</b>	Yes. Employers should allow employees to change elections during the plan year. No qualifying event is needed.	Employee election must be made for the full plan period. Employers may permit midyear election changes on account of and consistent with changes in status.	No. Employee does not make contribution elections (employer funded).
<b>Is the use of a debit or stored value card allowed?</b>	Yes.	Yes.	Yes.
<b>Is third party substantiation of expenses required?</b>	No. The burden is on the employee to substantiate that the expense has been incurred, the amount of the expense, and that it is a qualifying expense.	Yes. IRS regulations governing FSAs require that each claim be substantiated before it can be reimbursed.	Yes. IRS regulations governing FSAs require that each claim be substantiated.
<b>Can the account be integrated with other accounts?</b>	Most FSAs or HRAs cannot be integrated with HSAs, except under limited circumstances, i.e., a limited purpose or post deductible FSA or HRA.	A health care FSA can be sold with an HRA, but only a limited purpose or post-deductible health care FSA can be integrated with an HSA.	An HRA can be integrated with an FSA, but a full-purpose HRA can not be integrated with an HSA.
<b>Is ERISA applicable?</b>	Generally no, but depends upon level of employer involvement.	Generally, yes.	Generally, yes.

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