HRA BENEFITS insights

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Comparison of HSAs to HRAs and FSAs

	HSAs	HRAs	FSAs
Who owns the account?	Individual or employee	Employer	Employer
Eligible Individual	Individuals and families covered by a qualified HDHP and no other health plan that covers the same benefits. Individuals are not eligible if they can be claimed as a dependent on another person's tax return.	Current and former employees whose employers offer such a plan.	Current and former employees whose employers offer such a plan.
Eligibility of Spouse or Dependents	Spouses and dependents are eligible to use employee's account.	Spouses and dependents are eligible to use employee's account.	Spouses and dependents are eligible to use employee's account.
Who may fund the account?	Employer or employee, can both be in the same year. Employee can contribute pre-tax dollars through a Section 125 plan.	Employer*	Employer or employee* Typically the employee contributes pre-tax dollars through a Section 125 plan.
What plans may be offered with the tax-advantaged account?	An HDHP as follows: <u>Minimum Deductible:</u> **2014:** $1,250 individual (increase to $1,300 for 2015) $2,500 family (increase to $2,600 for 2015) <u>Out-of-pocket Maximum:</u> **2014:** $6,350 individual (increase to $6,450 for 2015) $12,700 family (increase to $12,900 for 2015)	Effective for 2014 plan years, an employer must offer a health plan and the HRA must be considered integrated with group health plan coverage. Stand-alone HRAs are not permitted unless they are limited to excepted benefits or fall under an exemption to the Affordable Care Act (ACA).	Effective for 2014 plan years, health FSAs must qualify as excepted benefits to satisfy ACA reforms. To qualify as an excepted benefit, the FSA must meet a maximum benefit requirement and other group health plan coverage must be offered by the employer.

*Self-employed individuals, including partners, and more than 2% shareholders in a subchapter S-corporation **cannot** contribute.

Is there a limit on the amount that can be contributed per year?	Yes **2014:** $3,300 individual (increase to $3,350 for 2015) $6,550 family (increase to $6,650 for 2015) Catch-up contributions of $1,000 per year are permitted for individuals who are age 55 by the end of the tax year.	No, there is no IRS prescribed limit.	Effective for taxable years beginning after Dec. 31, 2012, employees may not elect to contribute more than $2,500 per year to a health FSA offered through a cafeteria plan. For 2014, the amount remains at $2,500. However, for **taxable years beginning in 2015**, the dollar limitation on employee salary reduction contributions to a health FSA will **increase from $2,500 to $2,550**.
Can unused funds be rolled over from year to year?	Yes	Yes	No, with two exceptions. If the FSA allows, unused amounts may be used for expenses incurred during a grace period of 2 ½ months after the end of plan year. Also, if the FSA does not incorporate a grace period, it may allow employees to carry over up to $500 in unused funds into the next plan year.
What expenses are eligible for reimbursement?	Section 213(d) medical expenses, including: -COBRA premiums -QLTC premiums -Health premiums while receiving unemployment benefits -If Medicare eligible due to age, health insurance premiums except medical supplement policies Effective Dec. 31, 2010, OTC medicine or drug expenses cannot be reimbursed unless they are prescribed or are insulin.	Section 213(d) medical expenses, including health insurance premiums for current employees, retirees and qualified beneficiaries, and QLTC premiums. Employer can generally define “eligible medical expenses” to be more restrictive than the IRS guidelines. Effective Dec. 31, 2010, OTC medicine or drug expenses cannot be reimbursed unless they are prescribed or are insulin.	Section 213(d) medical expenses. Effective Dec. 31, 2010, OTC medicine or drug expenses cannot be reimbursed unless they are prescribed or are insulin. Expenses for insurance premiums are not reimbursable. Employer can generally define “eligible medical expenses” to be more restrictive than the IRS guidelines.

Must claims submitted for reimbursement be substantiated?	No	Yes	Yes
May account reimburse non-medical expenses?	Yes, but taxed as income and 20% penalty (no penalty if distributed after death, disability or age 65).	No	No
Is interest earned on the tax-advantaged account?	Yes, accrues tax-free.	Yes, paid to the employer.	No
Federal tax treatment of employee contributions	Tax-deductible for individual, even if he or she does not itemize, provided funds are used for eligible expenses. (Note: Some states do not follow federal tax law for state purposes.) If an employee contributes to his or her HSA through salary reduction, the contributions are considered to be made by the employer and are not subject to FICA and other employment taxes.	n/a	If an employee contributes to an FSA through salary reductions under a cafeteria plan, the contributions are tax-free and are not subject to FICA and other employment taxes.
State tax treatment of employee contributions	State laws may vary	n/a	State laws may vary
Federal tax treatment of employer contributions	Employers get expense deductions for payments. Employer contributions are generally excludable from employee's gross income.	Employers get expense deductions for payments. Employer contributions are generally excludable from employee's gross income.	Employers get expense deductions for payments. Employer contributions are generally excludable from employee's gross income.