

Health Savings Accounts vs. Health Reimbursement Accounts vs. Flexible Spending Accounts (HSA vs. HRA vs. FSA)

| | Health Savings Accounts | Health Reimbursement Accounts | Flexible Spending Accounts |
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| Overview | A tax-exempt trust or custodial account created exclusively to pay for qualified medical expenses of the account holder/employee and his or her spouse or dependents. | An employer funded account that reimburses employees for qualified medical expenses. | A cafeteria plan under Section 125 of the IRS code. Three components of an FSA: A) Health insurance premiums. B) Qualified medical expenses. C) Dependent care expenses. |
| Who can have an account? | If the market offers this type of product either the employer can provide for the employee or an individual can establish on their own. For individuals and family members | Can only be established by an employer for the employee. | Can only be established by an employer. |
| What type of institution can hold the funds? | Trustee (bank), insurance company or another person who demonstrates to the satisfaction of the Secretary of Treasury of the USA that the manner in which such person will administer the trust will be consistent with requirements of Section Code 223, 448 or 816. | Typically the employer. | Typically the employer or a Flexible Spending Account Third Party Administrator. |
| Is the institution required to file reports with the IRS? | Yes. All contributions, distributions, return of excess contributions and other matters as it relates to being a custodian of the funds. | No. | No, unless the FSA is considered part of the medical plan in a wrap document of the Form 5500. |
| What constitutes a Qualified Medical Expense? | The same list as currently used for Flexible Spending Accounts known as Section 213(d) of the IRS code. | The same list as currently used for Flexible Spending Accounts known as Section 213(d) of the IRS code. | The same list as currently used for Flexible Spending Accounts known as Section 213(d) of the IRS code. |
| Are their restrictions on plan design? | Yes, see below. | No. | No. |
| Who funds the account? | Employer or employee, <u>or</u> both. | Employer only. | Typically the employee only. There are certain instances whereby an employer can contribute some dollars. |

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| What are the components of these plans? | A high deductible (see below) medical plan and an investment vehicle. | No specific benefit designs. Just a promise of money for the HRA. No amounts need to be set aside. | A flexible spending account. |
| Who owns the moneys in these accounts? | The employee. | The employer. | Employer has use of money during the year, however, the money reverts back to the employer at the end of claim submittal period. |
| Can these dollars be rolled over? Is there a carry forward provision into the next plan year for these dollars? | Yes, within 60 days. One is allowed per 12-month period. | No, as there is technically no value to the employee once they leave the employer. See comment below in other boxes. | No, use it or lose it. |
| Can these dollars be used for retirement income dollars? | Yes | No, as there is technically no value to the employee once they leave the employer. See comment below in other boxes. | No, use it or lose it. |
| What are the plan design requirements of the health plan? | <p>For 2003/2004:</p> <p>Self-only: Deductible must be at a low of \$1,000 with an out of pocket maximum of not more than \$5,000 per year. (Deductible must be included as part of the out of pocket maximum).</p> <p>Family: Deductible must be at a low of \$2,000 with an out of pocket maximum of not more than \$10,000. (Deductible must be included as part of the out of pocket maximum).</p> <p>The deductibles and out of pocket maximums will be indexed by the IRS each year.</p> | No plan design requirements. | No plan design requirements. |
| Are there dollar limits on the contributions per year to the investment vehicle or account? | Yes, up to a maximum of 100% of the deductible. | No, federal income tax law limits. Employers typically set limits to the deductible and out of pocket maximum of the plan design. | No limits under federal law. Employers typically set limits. |

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| When can funds be used to pay for health insurance premiums? | <ol style="list-style-type: none"> 1. While receiving unemployment benefits. 2. While receiving COBRA continuation benefits. | Funds can be used for premiums under: <ol style="list-style-type: none"> 1. The employee's health plan. 2. A spouse's health plan. 3. The employer's retiree health plan. 4. COBRA continuation | To pay the employee's contribution toward the monthly cost of health insurance. |
| Can funds be used to pay for long-term care coverage? | Yes, premiums for long-term care insurance are reimbursable. | Yes, premiums for long-term care insurance are reimbursable. | No, Section 125 specifically excludes long-term care insurance. |
| Are withdrawals for non-medical expenses allowed? Are there penalties for excess contributions? | Yes, but distributions not used exclusively to pay for qualified medical expenses under Section 213d are subject to a 10% additional tax, except when an individual turns age 65 or older, is disabled or has died during the year. A 6% penalty applies for excess contributions. | Yes, but distributions not used exclusively to pay for qualified medical expenses under Section 213d are subject to a 15% additional tax, except when an individual turns age 65 or older, is disabled or has died during the year. | No. |
| What is the tax treatment of contributions? | Employee contributions are tax deductible. Employer contributions are excludable from gross income and not subject to employer taxes. | Employer contributions are generally excludable from employee's gross income. | Employees pay no federal, Social Security or (in most cases) state taxes on FSA contributions. Employers pay no FICA tax on FSA contributions. |
| Are accounts portable? | Yes, Employees may take funds with them when they leave or change jobs. | Yes, but only at discretion of the employer. | No. Unused FSA balances are forfeited to the employer if the employee leaves or changes jobs. |
| Does interest accrue on funds deposited in the account? | Yes. Interest accrues tax-free. | There is no requirement that interest accrue but employers have discretion to credit interest to the HRA accounts. | No. Interest is not accrued. |

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| Do these accounts require discrimination testing? | The IRS will render its final decision in July 2004. They are deciding if the same discrimination testing will be required as currently applicable under Flexible Spending Accounts. There is currently no guidance. | No. | Yes. |
| If a qualifying event occurs mid-year like under a Flexible Spending Account can the participant change their elections? | IRS will render its final decision in July 2004. | N/A | Yes, mid-year elections are allowed to qualifying events that are pre-stipulated under federal law. |
| Can a participant have this plan and another "low deductible" plan? | No. Even the spouse's plan would need to qualify as a "high deductible" plan in order for the employee to participate in an HSA. No other 1st dollar coverage plans would be allowed. There is currently no guidance. | Yes. | N/A |
| What other types of insurance are considered "permitted" insurance? | Worker's compensation, tort liabilities, cancer insurance, long term care insurance or coverages that have fixed dollar amounts per day for benefits. | N/A | N/A |
| Can an individual have Medicare and these plans? | No. | No specific mention in law. | N/A |
| What benefits are <u>not</u> subject to annual deductible? | Preventive care and accidents. | N/A | N/A |
| Are copays in plan permitted? | The IRS will render its final decision in July 2004. There is currently no guidance. | N/A | N/A |
| How is money withdrawn? | Book of checks or debit card. | Employer or TPA reimburses. | Check or debit card. |