Employee Benefits Series

HSA / FSA / HRA
Comparison of Key Features for 2017

Health Savings Account (HSA),
Health Flexible Spending Arrangement (FSA),
Health Reimbursement Arrangement (HRA)

EXUDE

HSA / FSA / HRA: Comparison of Key Features

OVERVIEW	HSA	Health FSA	HRA
Account Description	Tax-exempt trust or custodial account established by an eligible individual to pay for qualified medical expenses	Employer-established benefit plan that allows eligible employees to be reimbursed for qualified medical expenses	Employer-established benefit plan that reimburses eligible employees for qualified medical expenses
Important Reminders for 2017	**New** annual limits on contributions apply	**New** annual limits on contributions apply. In addition, a health FSA must qualify as excepted benefits* **and** be offered through a Section 125 cafeteria plan, or the arrangement will violate certain requirements under Health Care Reform	An HRA must be integrated** with other group health plan coverage in order to meet certain requirements under Health Care Reform. "Stand-alone" HRAs (except for retiree-only HRAs and HRAs consisting solely of excepted benefits), as well as HRAs used for an employee's individual insurance policy premiums, **do not comply with the law**
Potential Tax Benefits for Employees	• Employee contributions are tax-deductible (or pre-tax, if made by salary reduction) • Earnings on amounts in an HSA are not included in gross income while held in the HSA • Employer contributions are excluded from gross income and are generally not subject to employment taxes • Tax-free distributions to pay qualified medical expenses	• Contributions (by both employee and employer) are generally excluded from gross income and not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed	• Employer contributions are excluded from gross income and are not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed

HSA / FSA / HRA: Comparison of Key Features

EMPLOYEE ELIGIBILITY	HSA	Health FSA	HRA
High Deductible Health Plan (HDHP) Coverage Required **Note:** A health plan will still qualify as an HDHP even though it provides certain preventive health services without a deductible, as required by Health Care Reform	Yes. For 2017, the minimum annual deductible is **$1,300** for self-only coverage or **$2,600** for family coverage (unchanged from 2016). The maximum deductible and other out-of-pocket expenses (excluding premiums) is **$6,550** for self-only coverage or **$13,100** for family coverage (unchanged from 2016).+	No; however, a health FSA will be considered to provide excepted benefits (and therefore permitted under Health Care Reform) **only if** the employer also makes available other group health plan coverage that is not limited to excepted benefits (and the health FSA is structured to meet certain other requirements)	No; however, in order to be "integrated" with other group health plan coverage, among other requirements, an HRA can be available only to employees who are enrolled in non-HRA group coverage
Who May Participate **Note:** Self-employed persons are not eligible for an FSA or HRA, and certain limitations may apply to key employees or highly compensated participants. In addition, guidance regarding the participation by same-sex spouses in HSAs, FSAs, and cafeteria plans is available.	An individual is eligible to establish an HSA if he or she: • Is covered under a high deductible health plan (HDHP); • Is not covered by any other health plan that is not an HDHP (including coverage in a general purpose health FSA solely as a result of unused carryover amounts from the prior year), except for certain limited types of coverage; • Is not enrolled in Medicare; and • May not be claimed as a dependent on another person's income tax return	Employer sets rules for eligibility. Health FSAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)). Employers also must comply with nondiscrimination rules for cafeteria plans under Section 125 regarding eligibility, contributions, and benefits for highly compensated and key employees.	To be "integrated" with other group health plan coverage, among other requirements, an HRA can be available only to employees who are enrolled in non-HRA group coverage—either another group health plan that does not consist solely of excepted benefits or a group health plan that provides minimum value. HRAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)).

+ *Effective for plan or policy years that begin in or after 2016, non-grandfathered HDHPs must also apply the self-only cost-sharing limit for coverage of essential health benefits provided in-network (**$7,150** for 2017, $6,850 in 2016) to **each individual** covered under the plan, even if this amount is below the family deductible limit.*

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CONTRIBUTIONS	HSA	Health FSA	HRA
Who May Contribute	The employee, the employer, or both may contribute (family members or any other person may also contribute)	The employee, the employer, or both may contribute to the health FSA	Only the employer may contribute
Limit on Contributions	Yes. For 2017, the maximum contribution is **$3,400** (up from $3,350 in 2016) for self-only coverage, or **$6,750** for family coverage (unchanged from 2016). The limit is increased by $1,000 for eligible individuals age 55 or older at the end of the tax year.	Yes. For 2017, salary reduction contributions to a health FSA are limited to **$2,600** (up from $2,550 in 2016). A health FSA will be considered to provide excepted benefits (and therefore permitted under Health Care Reform) **only if** the arrangement is structured so the maximum benefit payable to any participant cannot exceed **two times** the participant's salary reduction election for the health FSA for the year (or, if greater, cannot exceed $500 plus the amount of the salary reduction election), and certain other requirements are met.	No limit on the amount of money an employer may contribute to an employee's HRA if the HRA is "integrated" with a group health plan that itself has no annual limits. **"Stand-alone" HRAs** (except for retiree-only HRAs and HRAs consisting solely of excepted benefits) **are not compliant with Health Care Reform**.
Pre-Tax Employee Contribution Allowed	Yes, contributions can be made through employee salary reductions under a cafeteria plan	Yes, typically funded through salary reduction agreements in which employees elect an amount to be voluntarily withheld from wages (A health FSA **must** be offered through a Section 125 cafeteria plan in order to be exempt from the annual dollar limit prohibition under Health Care Reform)	No, funded solely through employer contributions

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CONTRIBUTIONS	HSA	Health FSA	HRA
Employer Participation	If the employer contributes, it must make comparable contributions to all comparable participating employees' HSAs. The comparability rules do not apply to HSA contributions made through a cafeteria plan. However, the employer must comply with the Section 125 nondiscrimination requirements.	Any contributions made by the employer must comply with the nondiscrimination requirements under IRC Sections 105(h) and 125	Employer contributions must not discriminate in favor of highly compensated individuals as provided by IRC Section 105(h)
DISTRIBUTIONS	**HSA**	**Health FSA**	**HRA**
Distributions Allowed	Distributions used exclusively to pay for qualified medical expenses of the employee and his or her spouse and dependents are tax-free. Any distribution amount not used exclusively to pay for qualified medical expenses is included in the employee's gross income and may be subject to an additional 20% tax. **Note:** Employees who cover dependents to age 26 under an HDHP may **not use HSA funds** for reimbursement on a tax-free basis for an adult child's medical expenses, **unless the adult child** qualifies as a tax dependent of the employee.	A health FSA may only reimburse qualified medical expenses incurred by an employee and his or her spouse and dependents, as well as the employee's adult child under age 27 as of the end of the taxable year (regardless of whether the adult child qualifies as a tax dependent of the employee)	Reimbursements under an HRA can only be made on a tax-free basis for qualified medical expenses to current and former employees (and their spouses and dependents), as well as to spouses and dependents of deceased employees, and to the employee's adult child under age 27 as of the end of the taxable year (regardless of whether the adult child qualifies as the employee's tax dependent)

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DISTRIBUTIONS	HSA	Health FSA	HRA
Timing of Distributions	An eligible employee may receive distributions from an HSA at any time for qualified medical expenses that are not reimbursed by the HDHP; however, expenses incurred before an HSA is established are not qualified medical expenses	Expenses are incurred when services are provided. Expenses incurred before or after the period of coverage may not be reimbursed. Employees are entitled to receive the maximum reimbursement at any time during the coverage period, regardless of the amount that has been contributed (reduced by any prior reimbursements).	An HRA may not reimburse expenses for medical care incurred before the date the HRA is in existence or before the date an employee first becomes enrolled under the HRA
Qualified Medical Expenses	Generally, qualified medical expenses are those expenses paid for "medical care" as defined in IRC Section 213(d). Health insurance premiums are generally not considered qualified medical expenses for HSA purposes, unless the premiums are for: • Qualified long-term care insurance (premiums are subject to limits based on age and are adjusted annually) • Health care continuation coverage required by federal law (e.g., COBRA) • Health care coverage while an individual is receiving unemployment • Medicare and other health care coverage if the employee is 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap)	Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC Section 213(d). A health FSA may be limited to a subset of permitted Section 213(d) medical expenses. FSA distributions are not permitted for the following expenses: • Amounts paid for health insurance premiums • Amounts paid for long-term care coverage or expenses • Amounts covered under another health plan **Note:** Under Health Care Reform, group health plans are required to cover certain preventive services without cost-sharing. A health FSA that does not qualify as excepted benefits **fails to meet** the preventive services requirements.	Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC Section 213(d). For purposes of HRA reimbursement, qualified medical expenses include: • Amounts paid for health insurance premiums* • Amounts paid for long-term care coverage • Amounts not covered under another health plan *HRAs used for employees' individual insurance policy premiums violate both the annual dollar limit prohibition and preventive services requirements under Health Care Reform.

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OTHER ISSUES	HSA	Health FSA	HRA
Balance and Carryover	Amounts remaining in an HSA at the end of the year are generally carried over to the next year	Amounts of up to $500 remaining in a health FSA at the end of the plan year may be carried over to the immediately following plan year or, alternatively, a plan may provide for a grace period of up to 2 ½ months after the end of the plan year in which the employee may use amounts remaining from the previous year. **Note:** An individual who is covered by a general purpose health FSA is not eligible to make HSA contributions during the entire plan year of the health FSA, even if the individual has coverage solely as a result of unused carryover amounts from the prior year.	Amounts that remain in the HRA at the end of the year can generally be carried over to the next year. The employer is not permitted to refund any part of the balance to the employee
Account Subject to COBRA	No	Yes, but FSAs that meet certain conditions may provide COBRA continuation coverage on a more limited basis	Generally yes
Portability	Yes, the employee is the owner of the account	No	No, the employer is the owner of the account

Benefits provided under a health FSA are excepted for a class of participants only if they satisfy two requirements:

1. *Other group health coverage, not limited to excepted benefits, is made available for the year to the class of participants by reason of their employment; and*
2. *The arrangement is structured so that the maximum benefit payable to any participant in the class for a year cannot exceed two times the participant's salary reduction election under the health FSA for the year (or, if greater, cannot exceed $500 plus the amount of the participant's salary reduction election).*
   Note: *Unused carryover amounts remaining at the end of a plan year that satisfy the modified "use-or-lose" rule are not taken into account when determining if this requirement is satisfied.*

***An HRA will be integrated with a group health plan if it meets the requirements under either of two integration methods described in the agency guidance. Both methods require that the HRA be available only to employees who are enrolled in non-HRA group coverage—either another group health plan that does not consist solely of excepted benefits or a group health plan that provides minimum value, regardless of whether the employer sponsors the plan. Part II of IRS Notice 2015-87 provides further clarification related to HRAs and integration.*

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For More Information

Please review IRS Publication 969 for a detailed explanation of HSAs, FSAs, and HRAs, as well as IRS Publication 15-B for additional information regarding the tax treatment of these types of arrangements.

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