

### **Comparison of Tax-Advantaged Health Care Spending Accounts**

<i>Feature</i>	<i>Health FSAs</i>	<i>HRAs</i>	<i>HSAs</i>
Overview	A type of cafeteria plan authorized under Section 125 of the IRC. Separate FSAs can be set up for 1). Health Insurance Premiums 2). Qualified Medical Expenses 3). Dependent Care Expenses	An employer funded account that reimburses employees for qualified medical care expenses, typically combined with a High Deductible Health Plan.	A tax-exempt trust or custodial account created exclusively to pay for the qualified medical expenses of the account holder and his or her spouse or dependents.
Who is eligible?	Any employee, subject to employer -designed exclusions.	Any employee, subject to employer -designed exclusions.	Any individual who is covered under a HDHP, is not entitled to Medicare, and cannot be claimed as a tax dependent. With certain exceptions, the individual cannot have any non-HDHP coverage.
Is funding with cafeteria plan salary reductions permitted?	Yes	Not for HRA	Yes
Must coverage be elected/provided for a full 12 month period, and are there any prohibitions on mid-year changes?	Yes	Not for HRA	Not for Health Savings Accounts, IRS guidance confirms that the 12 month coverage and election change rules do not apply even for Health Savings Accounts offered through a cafeteria plan. Yes, for HDHP funded through the cafeteria plan.

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Do uniform coverage rules apply, requiring the annual coverage amount be available as of the first day of the plan year?	Yes	No, coverage may be prorated by design.	No, But IRS guidance indicates that employers may choose to accelerate funding of Health Savings Accounts salary reduction elections under a cafeteria plan so long as certain requirements are met.
Are there requirements for a corresponding health plan?	No health plan requirements.	No health plan requirements.	High Deductible Health Plan
What medical expenses are eligible for reimbursement?	Unreimbursed qualified medical expenses as defined in Section 213(d) of the IRC. Cannot reimburse insurance premiums. Cannot reimburse qualified long-term care services.	Unreimbursed qualified medical expenses as defined in Section 213(d) of the IRC while coverage is in effect, including premiums for eligible health insurance and long-term care insurance, <b>subject to employer design.</b>	Unreimbursed qualified medical expenses as defined in Section 213(d) of the IRC of the account holder, spouse and dependents incurred after the Health Savings Account has been established. Qualified insurance premiums are COBRA coverage, long-term care insurance, health coverage while drawing unemployment compensation and if 65 or older, any health insurance except a Medicare supplemental policy.
Are withdrawals for non-medical expenses allowed?	No	No	Yes, but if the the distribution is not for a qualified medical expense it will be subject to income tax and an additional 10% penalty.

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Is expense substantiation required?	Yes	Yes	Yes, account holder must retain records.
Is claims adjudication required?	Yes	Yes	No
To be reimburseable, must claims be incurred during the current period of coverage?	Yes	Yes, but there is a big exception. Claims incurred but not reimbursed due to an insufficient HRA balance can be reimbursed in a subsequent year if the the individual was a participant when the claims were incurred and is still a participant.	Distributions for qualifying medical expenses will be tax free if incurred at any time after the Health Savings Account is established.
Can unused amounts be carried over to the next year?	No	Yes	Yes
Who may contribute to the account?	The employee, employer or both.	Solely the employer.	Either the account holder or the employer or both.
Are there limitations on contributions?	No limits under Federal income tax law for FSA's set up to pay for qualified medical expenses or health insurance premiums; employers usually set limits.	No limits under Federal income tax law. Employers typically set limits.	100% of the deductible amount of the HDHP, up to a maximum of \$2,600 for a single account, and \$5,150 for a family account. Subject to COLA.
What is the tax treatment of contributions?	Employees pay no federal, state, or FICA on FSA contributions. Employers pay no FICA tax on contributions.	Employer contributions are generally excludable from employee's gross income. Employers receive expense deductions for payments.	Individual contributions are tax deductible. Employee contributions via pre-tax payroll deduction are exempt from FICA, federal and state income tax. Employer contributions are excludable from gross income and not subject to FICA taxes.

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Can funds be carried over from year to year?	No, unused FSA balances are forfeited at the end of the year.	Yes, but only at the discretion of the employer.	Yes, Health Savings Accounts may be carried over indefinitely during a participant's lifetime.
Are accounts portable?	No, unused FSA balances are forfeited if the employee leaves or changes jobs.	Yes, but only at the discretion of the employer.	Yes, the employee may take funds with them when they leave or change jobs.
Does interest accrue on funds deposited in the account?	No, interest is not accrued.	There is no requirement that interest accrue but employers have discretion to credit interest to the HRA accounts.	Yes, interest accrues tax free.