

Flex, HRA and HSA Comparison

The chart below is a brief comparison of the various components of each of these important health care options.



Definition Key:

Flex: Flexible Benefit Plan
HRA: Health Reimbursement Arrangement
HSA: Health Savings Account
HDHP: High Deductible Health Plan
Health Insurance: Medical, Dental, Vision, Supplemental Health
SPD: Summary Plan Description

| Description | Flexible Benefit Plan / Health Care Spending Account | Health Reimbursement Arrangement (HRA) | Health Savings Account (HSA) |
|--------------------------------------|---|---|---|
| History | IRS Code 125 (Passed in 1978) | IRS Code 105(h) (Passed in 2002) | IRS Code 223 (Passed in 2003) |
| Eligible Persons | Employee, Spouse & Dependents | Employee, Former Employee, Spouse & Dependents | Non-Medicare Eligible – Individuals, Business Owners, Spouse & Dependents |
| Excluded Persons | S-Corp, LLC, LLP, Partnership Owners & their Spouses Sole Proprietors (employee- spouse may be eligible) Non-dependent Domestic Partners Can exclude part-time, temporary, seasonal and union employees, and non-resident aliens | S-Corp, LLC, LLP, Partnership Owners & their Spouses Sole-Proprietors (employee- spouse may be eligible) Non-dependent Domestic Partners (special rules) Can exclude part-time, temporary, seasonal and union employees, and non-resident aliens | Excludes Medicare eligible persons (cannot fund HSA but can continue to claim money already set aside in the HSA Trust Account) Non-dependent Domestic Partners |
| Eligible Medical Expenses | All Eligible Code 213 Medical Expenses | All Eligible Code 213 Medical Expenses (EXCLUDES long term care services) | All Eligible Code 213 Medical Expenses (INCLUDES long term care services) |

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| Eligible Premiums | Cannot reimburse any Health Related Premiums from the Health Care Spending Account | Can reimburse all Health Related Premiums; and INCLUDES Long Term Care Insurance premiums | EXCLUDES all Health Related Premiums INCLUDES Long Term Care Insurance and certain health insurance premiums while unemployed |
| Who Sets the Rules | Employer designs Plan No special insurance coverage required | Employer designs Plan No special insurance coverage required | IRS Mandates HSA must be offered with a HDHP and cannot have other insurance coverage (except as allowed) |
| Allowed Insurance | All Insurances – no conflicts | All Insurances – no conflicts | Must own HDHP Can also own: Long Term Care Insurance, Dental, Vision, Accident, Specific Illness, Hospital Income & Critical Illness EXCLUDES: Prescription Drug Plans |
| Who Can Fund the Plan | Employer and/or Employee | Employer only | Individual, Employer and/or Employee |
| Funding Requirements | No Pre-Funding Required | No Pre-Funding Required | Must be funded into a trust account – Limited to value of HDHP each tax year – or - \$2,600 for single and \$5,150 for family (whichever is less) 55 years and older can add \$500 more per year |

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| Can the Plan be Funded with Salary Reduction? | Yes | No | Yes – if employer contributes, must make comparable contributions |
| How are the Dollars Paid? | Available anytime during the Plan Year | Available anytime or as earned (accrual) – based on Plan Design | Paid from HSA Trust Account as dollars are available in the Trust Account |
| Third-Party Claims Adjudication | Always required – Some electronic adjudication allowed with Debit Card | Always required – Some electronic adjudication allowed with Debit Card | Self-adjudication only |
| Can Dollars Be Carried Forward? | No – unused dollars are retained by employer | Carry forward can be allowed based on Plan design | Carry forward always allowed – dollars belong to the account holder |
| Can Dollars Be Used for Other than Medical? | No | No | Yes, prior to age 65, 10% penalty and taxes; after age 65 taxation only |
| Can Dollars Be Paid Out in Future Years? | No | Yes – based on Plan design | Yes – belongs to the Account Holder |
| Is COBRA Required? | Yes – generally only when Positive Balance in the Health Care Spending Account at termination (exceptions do apply) | Yes | No – HSA Trust Account dollars owned by account holder. However, HDHP will be COBRA eligible when a group health plan |

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| Are There Discrimination Rules? | Yes – nine tests in all, most based on Plan design / others based on pre-tax dollars paid | Yes – must be non-discriminatory in design; not in utilization | Yes – if employer contribution made, must be comparable for similar persons (example: single vs. family coverage) |
| ERISA 5500 Forms | 5500 Form required for groups with 100 or more Health Care Spending Account Participants | 5500 Form required for groups with 100 or more Participants | May apply if there are Employer contributions – not currently clear |
| ERISA SPD Required | Required | Required | May apply if there are employer contributions; however, with claims self-adjudicated and self-reported ERISA should not apply to claims procedures |
| Portability of Funds | No | No | Yes |
| Catch Up Funding Allowed | No | No | Age 55 and older can add \$500 per year 2004, indexed thereafter |

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Features of the Various Programs

Flexible Benefit Plans:

- Can be used in conjunction with any existing insurance plan and/or benefit package.
- Allows employees to fund health premiums, medical expenses and dependent care with 100% tax-free dollars
- Tax-free dollars for employer and employee (both save on FICA and Medicare)
- Allows flexibility and diversity within the benefit package
- Allows equalization of benefits to employees with use of “Benefit Dollars”
- Employer has control of design and sets the plan design limits
- No funding required – however, must pay full employee elected amount whether or not the employee has currently funded the amount of the claim (not true with Dependent Care Spending Account)

Health Reimbursement Arrangements (HRA):

- Can be used in conjunction with any existing insurance plan and/or benefit package.
- Always employer dollars only – employer sets the plan design limits
- Tax-free dollars paid by employer to participant for medical expenses and/or health premiums (includes supplemental health products)
- Can limit availability based on plan design, can limit what employer will pay from HRA Plan (example: only the portion of insurance-approved deductible / excludes all other expenses)
- No pre-funding required
- Can choose to pay as accrued or in-full to employees
- Can offer carry-forward of funds and cap aggregate amount allowed
- Can choose not to have a carry forward
- Can pay-out in retirement or not allow a spend-down period

Health Savings Accounts (HSA):

- Must offer High Deductible Health Plan (as defined by IRS)
- Employer can fund Health Savings Trust Account – or not
- Employer can allow funds to be deposited to the HSA Trust Account through salary reduction (Flex Plan) thereby, both the employer and employee save on FICA and Medicare contributions
- Account Holder always owns the HSA Trust Account
- Health Savings Account is fully portable