

# OFFSETTING HEALTHCARE COSTS

|   | FSA   | HRA   | HSA   |
|---|---|---|---|
| <b>What do the initials stand for?</b>                | Flexible Spending Account   | Health Reimbursement Arrangement  | Health Savings Account  |
| <b>Who "owns" it?</b>                                 | Employee  | Employer  | Employee  |
| <b>Who funds it?</b>                                  | Employee  | Employer  | Employer and/or employee  |
| <b>Who is eligible to participate?</b>                | All employees   | All employees   | Employees covered by an HSA-qualified High Deductible Health Plan (HDHP)  |
| <b>How is it funded, and how are funds dispersed?</b> | Prior to the start of the FSA plan year, the employee determines an annual amount to contribute through pre-tax payroll deductions. Funds are dispersed as employee reimbursements.   | The employer funds employees' arrangements, and reimburses employees upon presentation of valid receipt(s) or via automatic rollover (the process may vary for individual plans). | Employees and/or employer fund the employees' accounts, and: <ul style="list-style-type: none"> <li>• The HSA trustee reimburses employees upon presentation of valid receipts;</li> <li>• Employees use an HSA debit card for Qualified Medical Expenses; or</li> <li>• Upon presentation of a claim, the plan issues payment directly to a provider.</li> </ul> |
| <b>Are there insurance plan requirements?</b>         | No. Employees are not required to participate in the employer's health plan.  | No. However, most HRAs are offered paired with a high deductible health plan.   | Yes. Employees must participate in an HSA-qualified HDHP to make or receive contributions to an HSA.  |
| <b>What constitutes a covered medical expense?</b>    | All Qualified Medical Expenses, as defined by the IRS*, except for health insurance premiums and long-term care services or insurance premiums.   | Determined by Employer, subject to IRS limits*  | All Qualified Medical Expenses, as defined by the IRS*, health plan coverage premiums while receiving unemployment compensation, COBRA premiums, Medicare premiums and expenses, qualified long-term care premiums (no Medigap premiums).   |
|   | * Internal Revenue Code, Section 213(d); visit <a href="https://www.irs.gov/publications/p502">irs.gov/publications/p502</a> for details about Qualified Medical Expenses.  |   |   |
| <b>Are distributions for other expenses allowed?</b>  | No  | No  | Yes, but distributions are taxable income, and (unless over 65, deceased or disabled) subject to additional 10% tax penalty.  |
| <b>Does the unused money carry over?</b>              | An employer may choose to allow their company's FSA plan to include a carryover option or a grace period option (or neither). <ul style="list-style-type: none"> <li>• <b>Carryover:</b> A plan may allow up to \$500 of unused funds remaining at the end of the plan year to be used for qualifying expenses incurred in the following plan year. Employees forfeit any unused funds above the carryover amount.</li> <li>• <b>Grace Period:</b> A plan may allow a 2½-month extension of the plan year. Expenses incurred during the grace period may be paid using funds left over from the prior plan year.</li> </ul> | Determined by Employer  | Yes, without limit  |
| <b>Is the account portable?</b>                       | No. Employees forfeit any unused funds remaining at the end of the year (or above the carryover amount, or at the end of the grace period, if applicable), or at the end of employment, whichever is first.   | No, the money belongs to the employer.  | Yes. An HSA is a personal account belonging to the employee. Upon the employee's death, the named beneficiary receives the remaining account balance.   |
| <b>What are the tax benefits?</b>                     | Employee contributions are tax-free and reduce employee's annual taxable income. Distributions are also tax-free.   | The employer may deduct qualified distributions as business expenses. Distributions to employees are tax-free.  | The employer may deduct contributions as business expenses. Employee contributions are tax-free, and distributions to employees for covered medical expenses are tax-free.  |
| <b>Does COBRA apply?</b>                              | Yes   | Yes   | No  |

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