

Health FSA,¹ HRA,² HSA³ 2007 Comparison Chart

	Health FSA	HRA	HSA ⁴
STRUCTURE			
High deductible health plan requirement	None	None Employer has complete discretion in designing plan.	Required: Deductible must be at least: \$1,100/individual \$2,200/family. Out of pocket must not be more than: \$5,500/individual \$11,000/family.
Trust requirement	None. Accounts are unfunded. Claims paid out of employer's general assets.	Same as FSA.	Trust account required.
Partners/sole proprietors	Not eligible	Not eligible	Eligible
Medicare-eligible employees	No participation restrictions.	Same as FSA.	No contributions may be made.
CONTRIBUTIONS			
Employer contributions	Yes. Employer can deduct contributions. They are excludable from employee wages for income and payroll tax purposes.	Same as FSA.	Same as FSA.
Pre-tax salary reduction contributions allowed	Yes	No-must be employer-funded only.	Yes. ⁵
Maximum Contribution	No limit unless defined by plan.	Employer defined.	\$2,850/individual \$5,650/family Individuals age 55 or older may deduct an additional \$800 for 2007, increasing in \$100 increments annually until it reaches \$1,000 in 2009.

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Non-discrimination rules	Self-funded health plan rules [IRC §105(h)] apply to prohibit discrimination in favor of highly compensated employees (HCEs). Penalty: HCEs' reimbursements become taxable.	Same as FSA.	If employer contributes, it must make comparable contributions (same amount or percentage of deductible) for all participants. Penalty: 35% excise tax on employer contributions.
ELIGIBLE EXPENSES & UNUSED AMOUNTS			
Eligible expenses	Unreimbursed medical expenses [IRC §213(d)] incurred during the coverage period. May set up health premium plan only.	Unreimbursed medical expenses [IRC §213(d)] incurred while coverage is in effect. May reimburse health, LTC insurance premiums.	Unreimbursed medical expenses p[IRC §213(d)] incurred while coverage is in effect. May not reimburse insurance premiums except: LTC insurance; COBRA premiums; Health insurance during unemployment periods; For Medicare beneficiaries, health insurance other than Medigap.
Claim Substantiation	Required. Claimants must submit documentation that legitimate medical expense was incurred.	Same as FSA.	Generally not required. However, claims substantiation rules may apply if an employer-sponsored program.
Employer Limits on Medical Expenses	Required. Claimants must submit documentation that legitimate medical expense was incurred.	Same as FSA.	Not Allowed. HSA is controlled by the individual/employee.
Carryover unused amounts at year end	No	Yes	Yes
Cash-out Unused Amounts	No	No	Yes. Non-medical withdrawals are taxable. A 10% penalty applies except for Medicare beneficiaries, employee's disability or death.

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COBRA & ERISA			
COBRA	Applies. Special rule for qualifying FSAs.	Applies. Alternatively, HRA may continue reimbursements after COBRA event until depleted without COBRA election.	Not applicable. ⁶ HSA is owned by the individual and portable. Upon employee's death, spouse becomes new account beneficiary. If no spouse, HSA cashed out to estate or non-spouse beneficiary. HSA funds can be used to pay COBRA premiums if the former employee is collecting unemployment.
ERISA Form 5500	Required (as self-funded health plan). Exception for small plans (less than 100 participants).	Same as FSA.	Required if employer funded.
ERISA SPD and claim procedures	Required	Required	Required if employer funded.

Endnotes

- ¹ Health flexible spending account created under Internal Revenue Code §125.
- ² Health reimbursement arrangement created under Revenue Ruling 2002-41 and Notice 2004-45.
- ³ Health savings accounts created under Internal Revenue Code §223.
- ⁴ HSAs are similar to Archer Medical Savings Accounts (MSAs). However, MSAs were available only to self-employed individuals or employees of small employers (50 employees or less) covered by a high deductible health plan. Congress did not extend MSAs' pilot program beyond 2004. However, existing MSAs are grandfathered.
- ⁵ In addition, an employee can deduct after-tax contributions made directly to the HSA even though the employee does not itemize tax deductions.
- ⁶ COBRA still applies; however, to the accompanying high deductible health plan.