

Comparisons of Other Health Benefit Options

COMPARISONS OF OTHER HEALTH BENEFIT OPTIONS			
QUESTION	HEALTH SAVINGS ACCOUNT (HSA)	HEALTH REIMBURSEMENT ARRANGEMENT (HRA)	FLEXIBLE SPENDING ACCOUNT (FSA)
WHO IS ELIGIBLE?	Individuals and firms of any size.	Firms of any size. Owners of S corporations, limited liability companies and the self-employed can fund HRAs for their employees but not for themselves. Owners of C corporations can fund HRAs for themselves and their employees.	Firms of any size.
MUST IT BE USED WITH A HIGH-DEDUCTIBLE HEALTH PLAN?	Yes. It must be coupled with a health insurance policy with a minimum deductible of \$1,000 for an individual or \$2,000 for a family. There is no maximum deductible, but total costs to the insured cannot exceed \$5,000 for an individual or \$10,000 for a family.	No, but it usually is. The deductible is not set in law as it is with HSAs.	No.
WHAT ARE THE TAX ADVANTAGES?	As long as funds are spent on qualified medical expenses, there are federal and state income tax savings and payroll tax savings (FICA) for employee and employer. Qualified medical expenses are defined in section 213(d) of the Internal Revenue Code. ¹	As long as funds are spent on qualified medical expenses, there are federal and state income tax savings and payroll tax savings (FICA) for employee and employer. Qualified medical expenses are defined by the employer.	As long as funds are spent on qualified medical expenses, there are federal and state income tax savings and payroll tax savings (FICA) for employee and employer. Qualified medical expenses are defined in section 213(d) of the Internal Revenue Code.
WHO FUNDS IT?	Employer and/or employee. If the employer contributes to the employee's account, the contribution must be the same for all employees.	Employer.	Typically, the employee.
WHO "OWNS" IT?	Employee.	Employer.	Employee.
WHAT HAPPENS TO UNUSED FUNDS AT THE END OF THE YEAR?	Rollover is allowed.	Rollover is allowed at the employer's discretion.	Forfeited to the employer.
EMPLOYER FLEXIBILITY?	Federal legislation sets minimum deductible and maximum out-of-pocket amounts. The full amount of the deductible can be funded through the account.	The employer has substantial flexibility in designing an HRA. ²	The employer can set the contribution limit.
WHAT IF THE EMPLOYEE LEAVES THE FIRM?	The account is owned by the employee and therefore the balance is portable.	The account is owned by the employer and therefore portability of funds is at the discretion of the employer.	Balances are generally forfeited at termination. However, if an employee leaves mid-year and has already spent the entire account, the employer is liable for the balance.

NOTE: For more information on HSAs, see www.hsainsider.com

¹ Consult a tax adviser to determine the savings that would occur in your specific case. As a general illustration, assume an HSA is funded at \$1,000. If the employer funds the entire account, the \$1,000 is deductible as a business expense by the employer. The \$1,000 is excluded from determining employment or FICA taxes for the employer and employee, and is excluded from the employee's income taxes. Alternatively, assume the employee takes \$1,000 out of their wages and funds an HSA. In this case, the employee can claim the \$1,000 as an income tax deduction. Neither the employer nor employee would save FICA taxes on the \$1,000 since it is included as income.

² The employer can determine the amount the firm contributes to the HRA; the amount that can be rolled over to the next year; what happens to unused funds when an employee leaves; the timetable for the firm's contribution; whether to place a cap on the amount that can be accumulated over time and the amount of the cap; and the number of HRA plans to be offered (employers can establish different plan designs for different classes of employees).