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Comparing HSAs, HRAs And FSAs

Surveys show there are few work-related details as important to employees as their employer-sponsored health plans. That means it is more important than ever to choose a plan that works for them and for you. Many employers are turning to savings plans that work with their health plans to improve coverage without busting the budget. Let’s take a look at how they function.

Accounts That Complement Employer-sponsored Plans

The past few years have seen the creation of several types of accounts that can be set up to save for and pay for health care expenses. One of the more recent plans, the health savings account (HSA), joins health reimbursement arrangements (HRAs) and flexible spending accounts (FSAs) in a virtual alphabet soup of tax-advantaged vehicles designed to reimburse individuals for health care expenses not covered by insurance.

Which of these, if any, is right for you and your employees? The following brief comparison highlights the similarities and differences on key points among HSAs, HRAs and FSAs.

Who Can Have an Account?

Any employer can set up an HSA, HRA or FSA for employees. However, for 2018, HSAs are limited to individuals who are covered by a high-deductible health plan, defined as having a deductible of at least $1,350 for self-only coverage or $2,700 for family coverage (up from $1,300 and $2,600 in 2017). While HRAs do not have the high-deductible plan requirement, the consumer-driven health care model of which HRAs are a key element, would pair an HRA with a high-deductible plan.

FSA participation is limited to "employees," meaning that the self-employed, partners and holders of more than two percent of the stock in a Subchapter S corporation cannot participate (although these businesses can establish FSAs for common law employees).

> A **common law employee** is anyone who performs services for you if you can control the details of what will be done and how it will be done, even if you allow some degree of freedom. What matters to the IRS isn't the label you put on the relationship between you and the worker (such as contractor or employee), but the substance of the relationship in terms of control.
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> --IRS Publication 15

How Are Contributions Made?

The employer, the individual or both, can make HSA contributions. However, in the case of an HRA, only the employer contributes. Typically, employees fund their own FSAs. Contributions to all four types of accounts have tax advantages.

What Are the Limitations on the Contribution Amount?

The contribution limits are adjusted annually. For 2018, they equal $3,450 for those with individual coverage (up from $3,400 in 2017) and $6,900 for those with family coverage (up from $6,750 for 2017). Individuals who are at least 55 years old by the end of the year may contribute an additional $1,000. Limits on FSA and HRA contributions are set by plan design.

How Are Contributions Held?

A trust or custodial account is required for an HSA. HRAs and FSAs need not be funded, and claims typically are paid from the employer's general assets.

Do Amounts Accumulate? Are the Accounts Portable?

HSA amounts that are not withdrawn roll over each year, and the accounts are portable and can earn interest. HRA amounts also may carry over year to year; whether an individual continues to have access to the funds post-employment is a matter of plan design. Under current law, FSA balances remaining at the end of a plan year are forfeited.

What Can the Account Pay For?

With certain exceptions, all three types of accounts are designed to pay for medical expenses that are not reimbursed through an insurance plan. HSAs cannot pay for most types of insurance premiums, but certain types of health plan premiums are permitted: COBRA premiums; long-term care insurance premiums; premiums paid by Medicare-eligible individuals (other than those for Medigap policies); and premiums paid by individuals who are collecting unemployment compensation. HRAs generally cannot pay for expenses for long-term care services. FSAs cannot pay for any health insurance premiums or long-term care expenses.

What if a Withdrawal is for Non-Medical Expenses?

Amounts withdrawn from an HSA for non-medical expenses are taxable and are also subject to a penalty. By law, HRAs and FSAs cannot pay for nonqualified (non-medical) expenses.

In a nutshell: HSAs are attractive because of their funding flexibility and portability. These accounts require pairing with a high-deductible health plan. While HRAs and FSAs don't have the high-deductible-plan requirement, they do have other features that should be considered in light of the

employer's goals in offering the arrangement. For example, the HRA is an employer-contribution-only vehicle, and FSA funds do not roll over year to year.

Many factors will go into determining which of these accounts would be a valuable addition to your employee benefits offerings. Your professional advisers can explain the details of each of these accounts, and help you assess which might be right for your workplace.