Comparison of Tax-Favored Strategies

Summary of Plan Features

	Health Savings Accounts (HSAs)	Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
Overview	A tax-exempt trust or custodial account created exclusively for the purpose of paying qualified medical expenses of the account holder and his or her dependents.	A qualified benefit offered through a cafeteria plan authorized under Section 125 of the Internal Revenue Code. There are three components of an FSA: 1) health insurance premiums; 2) qualified medical expenses; and 3) dependent care expenses.	An employer-funded account that reimburses employees for qualified medical care expenses.
Who can establish an account?	Assuming that an employee is covered by a qualified high deductible health plan (HDHP), either the employer can establish an HSA for the employee or the employee can establish an HSA on his or her own.	Can only be established by an employer. An employee whose employer offers an FSA option may elect to participate in the FSA.	Can only be established by an employer for the employee.
Who may fund the account?	The employer, the employee, a family member of an employee or all of the above can contribute to the HSA.	Typically the employee alone funds the FSA. There are certain instances whereby an employer can contribute some dollars.	Only the employer can fund an HRA.
Who owns the moneys in these accounts?	The employee.	Employee has use of money during the year, however, the money reverts back to the employer at the end of claim submittal period.	The employer.
Is a specific health insurance policy required?	Yes – Qualified HDHPs.	No.	No.
What medical expenses qualify?	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code.	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code.	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code, or expenses as specifically determined by employer.
Are withdrawals for non-medical expenses allowed?	Yes, but distributions not used exclusively to pay "qualified medical expenses" are included in income and subject to an additional tax (penalty) of 10%.	No.	No.
Are funds available to employee before the account is funded?	No.	Yes.	At the discretion of the employer.

Comparison of Tax-Favored Strategies, cont.

	Health Savings Accounts (HSAs)	Flexible Spending Accounts (FSAs)	Health Reimbursement Arrangements (HRAs)
What Tax Savings apply?	Employee contributions are made on a pre-tax basis; employee copayments for health expenditures are not taxed; and there is no tax on earnings. Employer contributions are excludable from gross income and not subject to employment taxes (e.g. FICA).	Employees pay no federal, Social Security or (in most states) state taxes on FSA contributions. Employers pay no FICA tax or federal or state unemployment taxes on FSA contributions.	Employers receive expense deductions for payments. Employer contributions are generally excludable from employee's gross income.
Are funds available to employee before the account is funded?	No.	Yes.	At the discretion of the employer.
Do unused dollars rollover to the next year?	Yes. Funds may be carried over indefinitely during a participant's lifetime. Upon a participant's death, funds may be passed on to a surviving spouse without federal tax liability.	No. Unused FSA balances are forfeited at the end of the claim submittal period.	At the discretion of the employer. Unused amounts in an HRA may be carried over, subject to any limits set by the employer.
Is substantiation of claims required?	Yes, upon IRS audit (employee responsibility).	Yes (administrator responsibility).	Yes (administrator responsibility).
Can insurance premiums be paid from the account?	Yes, while receiving unemployment or COBRA continuation benefits.	Yes, to pay the employee's contribution toward the monthly cost of health insurance.	Yes, depending on the plan design, funds can be used to pay for premiums under the employee's health plan, a spouse's health plan, the employer's retiree health plan, or COBRA continuation.
Can funds be used to pay for long-term care coverage?	Yes, premiums for long-term care insurance are reimbursable.	No, Section 125 specifically excludes long-term care insurance.	Yes, depending on the plan design, premiums for long-term care insurance are reimbursable.
Does interest accrue on funds deposited in the account?	Yes. Interest accrues tax-free.	No. Interest is not accrued.	There is no requirement that interest accrues but employers have discretion to credit interest to the HRA accounts.
Is the account portable (i.e. retained by employee upon termination of employment)?	Yes.	No.	Yes, but ***only*** at the discretion of the employer.

This chart is provided as a guide only. Please consult Treasury Department and IRS rulings for actual wording of the regulations and guidelines pertaining to Health Savings Accounts, Health Reimbursement Accounts and Flexible Spending Accounts.