

# Deciding Whether to Use HRAs or HSAs:

## Comparative Chart for Sponsors of Multiemployer Health Plans

June 2020

This chart is designed to help trustees of multiemployer health plans and fund administrators decide which individual account option is best for their plan.<sup>1</sup>

Plan Feature	Health Reimbursement Arrangements (HRAs) <sup>2</sup>	Health Savings Accounts (HSAs) <sup>3</sup>
Funding	Accounts can be “paper” only (“notional accounts”).	Accounts must be funded in a trust that meets HSA requirements.
Trustee	Trustees can manage the HRA just like any other benefit available through the fund.	Trustees must hire an HSA trustee to manage the HSA (either a bank insurer or other entity certified by the IRS to be an HSA trustee).  A plan may select an HSA trustee or simply leave it up to the employee to create their own HSA.  The plan could pay the administrative costs, but more likely they would be deducted from the accounts (i.e., paid by the participants).
Plan contributions	The trustees may create a benefit design that gives each participant a certain amount in their HRA, whether or not the collective bargaining parties have negotiated an HRA.	A plan may create an HSA, but it does not have to contribute funds to the HSA. If the trustees wish, they can deposit funds into an HSA for individual participants.
Annual maximum contributions	No limit established by law for most HRAs. The maximum contribution for an “excepted benefit” HRA, which may be offered for the plan year beginning on or after 1/1/20, is \$1,800 (indexed starting in 2021). <sup>4</sup>	For 2020, maximum contribution is \$3,550 (single)/\$7,100 (family). <sup>5</sup> For 2021, maximum contribution is \$3,600 (single)/\$7,200 (family) <sup>6</sup>  Dollar limit is indexed annually.  \$1,000 catch-up contributions allowed for individuals age 55 or older and not enrolled in Medicare.

<sup>1</sup> This chart does not take flexible spending arrangements (FSAs) into account. Multiemployer health plans that have FSAs should discuss with their Segal consultant how the issues in this chart may change.

<sup>2</sup> HRAs were approved in Treasury Department [Notice 2002-45](#) and Internal Revenue Service [Revenue Ruling 2002-41](#).

<sup>3</sup> HSAs were created by Section 223 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which is also known as the Medicare Modernization Act (MMA).

<sup>4</sup> Excepted benefit” HRA and “individual coverage” HRA permitted under final rule published in the [June 20, 2019 Federal Register](#).

<sup>5</sup> Announced in [Revenue Procedure 2019-25](#).

<sup>6</sup> Announced in [Revenue Procedure 2020-32](#).

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Employer contributions	<p>The collective bargaining parties may designate a specific employer contribution amount to be made to an HRA (e.g., the employer will contribute \$.50/hr toward an HRA for each covered employee).</p> <p>Alternatively, the plan can establish benefit packages at certain contribution levels, with HRAs included in the benefit package (e.g., employer contribution of \$4.00/hour purchases health plan with certain benefits plus HRA to be funded at the level determined by the trustees each year).</p>	<p>Comparable contributions requirement — employer contributions (if any) must be comparable (same dollar amount or same percentage of deductible) across certain groups of employees.<sup>7</sup> Effective 1/1/07, employers may provide lower HSA contributions to highly compensated employees.</p>
Employee contributions	Not permissible	<p>Employees may contribute to an HSA either pre-tax through an employer's cafeteria plan or post-tax. If post-tax, they may deduct the contribution on their tax return as an above-the-line deduction (not subject to the limits on deducting medical expenses).</p> <p>If the plan and contributing employers do not have experience tracking employee contributions (e.g., 401(k) experience) and the plan will be transmitting employee contributions to the accounts, the trustees need to think about administrative issues.</p>
Contributions for those enrolled in Medicare (actives or retirees)	May be made	May not be made
Participant eligibility: coverage under a high-deductible health plan (HDHP) <sup>8</sup>	<p>For the plan year beginning on or after 1/1/14, the HRA had to be paired with other group health plan coverage. Stand-alone HRAs (other than retiree-only HRAs) were no longer permitted.<sup>9</sup></p> <p>New options are permitted for the plan year beginning on or after 1/1/20. The trustees may offer (1) an HRA paired with individual market coverage (an "individual coverage" HRA), but may not give any participant the choice between this type of HRA and a traditional group health plan; or (2) an "excepted benefit" HRA, which must be offered along with a traditional group health plan, but participant is not required to enroll in the group plan.</p>	<p>HSAs must be offered with an HDHP, and participant may not have any other overlapping health coverage.</p> <p>Preventive care expenses do not have to be subject to the HDHP deductible.</p>

<sup>7</sup> For more information about the IRS rules on comparable contributions, see Segal's August 2006 *Bulletin*, "[Final IRS Rules on Comparable Contributions to HSAs](#)."

<sup>8</sup> A high-deductible health plan (HDHP) is a medical plan with an annual deductible of not less than \$1,400 (single)/\$2,800 (family) for 2020. Those amounts will not change for 2021. The 2020 HDHP out-of-pocket maximum is \$6,900 (single)/ \$13,800 (family). The 2021 HDHP out-of-pocket maximum will be \$7,000 (single)/\$14,000 (family). For all coverage tiers other than single coverage, the minimum family deductible must be met before the HDHP pays for care for any family member. As noted elsewhere in the chart, the HDHP may pay for preventive care and other types of permitted coverage before the deductible is met.

<sup>9</sup> For more information, see [Notice 2013-54](#) and [Notice 2015-87](#), which address the impact of the ACA on HRAs.

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Carry-forward of account balance	Yes, and carry-forward may be capped.	Yes, but carry-forward <i>may not</i> be capped.
Payable medical expenses	<p>HRAs can generally pay for Qualified Medical Expenses under Internal Revenue Code (IRC) Section 213(d), including over-the-counter drugs (prescription required except for insulin).</p> <p>HRAs paired with group coverage can also pay COBRA premiums, retiree health premiums and long-term care premiums. HRA funds can be used to pay medical expenses incurred before the HDHP will pay. For example, HRA funds can be used by a participant or beneficiary to pay their deductible. Once the HDHP begins payment, HRA funds can be used to pay coinsurance. In addition, HRA funds can pay for medical expenses that are not covered under the HDHP.</p> <p>For the plan year beginning on or after 1/1/14, HRAs that are paired with other group coverage that does not meet the 60% minimum value standard will have to limit the expenses that are reimbursable.</p> <p>An HRA paired with individual market coverage (or Medicare) can pay for individual market and Medicare premiums (including Medigap).</p> <p>An “excepted benefit” HRA can pay premiums for excepted benefits (e.g., dental and vision) or for short-term limited duration insurance.</p>	<p>Same except no reimbursement for Medigap premiums. HSA may also reimburse health premiums incurred while receiving unemployment compensation.</p> <p>If an individual uses the money for another purpose, it is taxable and there is a 20% penalty (penalty was 10% prior to 1/1/11), waived in certain circumstances.</p>
Limits on payable medical expenses	Trustees can limit the expenses the HRA will pay for however they wish. See above for limits that apply with the plan year beginning on or after 1/1/14 and the plan year beginning on or after 1/1/20.	Unclear, but distribution is tax-free if taken for “qualified medical expenses.” Therefore the trustees probably cannot limit the expenses paid from an HSA.
Substantiation of medical expenses	<p>Required</p> <p>Administrator will need to be familiar with IRS Section 213(d) medical expense rules if these expenses are payable.</p> <p>If the HRA is paired with group coverage and pays only for COBRA and retiree medical, substantiation issues are minimal.</p> <p>If an “individual coverage” HRA is offered, the administrator will need to verify enrollment in individual market coverage prior to enrollment in the HRA and before making reimbursements. Attestations from participants can satisfy this requirement.</p>	Not required — only individual is responsible for keeping receipts.

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Forfeiture/portability rules	<p>Historically, trustees could establish whatever forfeiture rules they wished. Such rules could address termination, retirement, break-in-service, and work jurisdictional issues. For the plan year beginning on or after 1/1/14, the plan documents for an HRA paired with group coverage must permit participants to permanently opt out of and waive future reimbursements from the HRA. This opt-out feature is required because having an HRA balance would preclude the participant from qualifying for a premium assistance tax credit in a health insurance Exchange/Marketplace.</p> <p>Similar opt-out rules apply to “individual coverage” HRAs, which may be offered with the plan year beginning on or after 1/1/20.</p>	<p>No forfeiture rules – once money is in the HSA, it belongs to the individual, who can keep the account (like an IRA) after losing plan coverage or leaving the industry.</p>
Plan document	<p>Could be separate plan or could be amendment to existing plan</p>	<p>If an HDHP or HSA is set up by the trustees for their plan participants, then it will require a new HSA Trust Agreement, and possibly a new plan document (or modifications to the existing plan document). If the HSA is an ERISA plan then a summary plan description (SPD) is required, as well as other ERISA obligations.</p>
Administrative costs	<p>HRA costs would vary depending on how the account is established.</p> <p>Plan would generally pay any administrative costs associated with the HRA. If accounts are “inactive” plan might decide to charge administrative fees to account balances.</p>	<p>HSA costs would include charges related to administration of the account by the HSA trustee.</p> <p>Plan or employee could pay administrative costs.</p>
Interest on account	<p>Interest does not have to accrue to the individual's account. If the account will accrue interest, the administrative difficulty increases.</p>	<p>Interest would accrue to the individual's account; most plan sponsors offering HSAs will probably give participants investment control over the assets in their accounts.</p>
COBRA	<p>Required</p>	<p>Not required under the IRC, but probably required if the account is considered to be an ERISA employee welfare benefit plan.</p> <p>COBRA must be offered for the HDHP that must accompany the HSA.</p>

This resource is for informational purposes only and does not constitute legal, tax or investment advice. You are encouraged to discuss the issues raised here with your legal, tax and other advisors before determining how the issues apply to your specific situations.