

# Comparison of Key Elements of FSAs, HRAs and HSAs<sup>1</sup>

NOVEMBER 2018

Plan Feature	Flexible Spending Arrangements (FSAs)	Health Reimbursement Arrangements (HRAs) <sup>2</sup>	Health Savings Accounts (HSAs) <sup>3</sup>
<b>Who Creates an Account?</b>	Employer	Employer	Employer or individual
<b>Who Contributes?</b>	Employer and employee	Employer only	Employer and employee (but no contributions for those enrolled in Medicare)
<b>Tax Status of Employer Contributions</b>	Contributions are excludable from the employee's income. Employer contributions are not subject to FICA or FUTA.	Same	Same
<b>Pre-Tax Salary Reduction</b>	Permitted	Not permitted — HRAs are exclusively employer funded	Permitted subject to maximums
<b>Taxation of Account Earnings</b>	Generally not taxable	Account is not usually funded	Generally not taxable
<b>Maximum Contribution Level</b>	For 2018, maximum salary reduction is \$2,650. For 2019, maximum salary reduction is \$2,700. <sup>4</sup>	Set by employer	For 2018, maximum contribution is \$3,450 (single)/\$6,900 (family). <sup>5</sup> For 2019, maximum contribution is \$3,500 (single)/\$7,000 (family). <sup>6</sup>
<b>Catch-Up Contributions</b>	Not allowed	Not allowed	\$1,000 catch-up contribution allowed if age 55 or older and not enrolled in Medicare
<b>Carry-Forward of Amounts from Year to Year</b>	Employer may either allow carryover of up to \$500 or offer a 2½ month grace period <sup>7</sup>	Permitted — Plan may cap amount of carry-forward	Required
<b>Vesting</b>	No requirements	No requirements	Fully vested
<b>Funding</b>	Not required by IRC (could be required under ERISA)	Not required	Funding and trust are both required and subject to specific requirements.

<sup>1</sup> This chart does not include "Archer MSAs." Although Archer MSAs are still in existence, they have very limited applicability because they are only available to small employers and the self-employed. In addition, only employers or employees can make contributions to Archer MSAs (not both) and employee contributions cannot be pre-tax. The Archer MSA demonstration project, authorized by HIPAA in 1996, authorized up to 750,000 MSAs, but fewer than 100,000 are in existence.

<sup>2</sup> Approved in [Notice 2002-45](#) and [Revenue Ruling 2002-41](#).

<sup>3</sup> Created by Section 223 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA).

<sup>4</sup> Announced in [Revenue Procedure 2018-57](#).

<sup>5</sup> On March 5, 2018 in [Revenue Procedure 2018-18](#), the maximum family contribution was reduced to \$6,850 from the \$6,900 maximum announced on May 4, 2017 in [Revenue Procedure 2017-37](#). On April 26, 2018 in [Revenue Procedure 2018-27](#), the IRS reverted back to the \$6,900 maximum family contribution in response to requests it received from plan sponsors.

<sup>6</sup> Announced in [Revenue Procedure 2018-30](#).

<sup>7</sup> For more information about the carryover option and a link to an earlier publication on the grace period, see Segal's November 14, 2013 *Capital Checkup*, "New Rules for Health FSAs and Cafeteria Plans."

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<b>Portability</b>	None	None	Individual money is portable and may be rolled over into another HSA no more frequently than once in a 12-month period.
<b>High-Deductible Health Plan (HDHP)</b>	Not required	Not required	Required. For 2018 and 2019, the minimum deductible is \$1,350 (single)/\$2,700 (family).  Preventive care expenses do not have to be subject to the deductible.
<b>Out-of-Pocket Maximum for HDHP</b>	NA	NA	For 2018, \$6,650 (single)/\$13,300 (family). For 2019, \$6,750 (single)/\$13,500 (family).  Special rules for network plans.
<b>Other Eligibility Requirements</b>	NA	For the plan year beginning on or after 1/1/14, HRA must be paired with other group health plan coverage. Stand-alone HRAs (other than retiree-only HRAs) will no longer be permitted. <sup>8</sup>	Cannot be covered by another health plan which provides coverage for benefits covered under the HDHP; with certain exceptions — accident, disability, dental, vision, long-term care or other permitted insurance such as workers' compensation, specific disease or hospital reimbursement insurance
<b>Special Rules for Those Enrolled in Medicare</b>	NA	NA	Those enrolled in Medicare cannot contribute, but can receive distributions
<b>Reimbursable Medical Expenses</b>	Medical expenses under IRC §213(d); prescription required to reimburse over-the-counter medications (but not insulin) beginning 1/1/11	Same  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.	Same
<b>Reimbursement of Health Insurance Premiums</b>	Generally no	Certain health (e.g., COBRA and retiree health premiums) and long-term care insurance reimbursable	Certain health and long-term care insurance, including COBRA, premiums while receiving unemployment compensation, and retiree medical for individuals 65 or over (but not Medigap plans)
<b>Distribution for Non-Medical Expenses (Including Cash-Outs)</b>	Not allowed	Not allowed	Subject to tax and 20% penalty (penalty was 10% prior to 1/1/11), with certain exceptions

<sup>8</sup> For more information, see [Notice 2013-54](#) and [Notice 2015-87](#), which address the impact of the Affordable Care Act on HRAs.

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<b>Nondiscrimination</b>	Required under IRC §§105 and 125 (if included in cafeteria plan)	Required under IRC §105	Comparable contributions requirement — employer contributions (if any) must be comparable (same dollar amount or same percentage of deductible) across certain groups of employees; <sup>9</sup> effective 1/1/07, employers may provide lower HSA contributions to highly compensated employees
<b>Reimbursement Order</b>	FSA always last unless HRA document states otherwise	FSA always last unless HRA document states otherwise	Cannot have HRA and FSA that cover same expenses as the HDHP
<b>Coverage Period</b>	Generally 12 months	Plan sponsor determines	NA
<b>“Uniform Coverage Rule”</b>	Applies	Does not apply	Does not apply
<b>Expense Substantiation</b>	Plan must substantiate	Plan must substantiate	Only individual must substantiate, not plan or trustee
<b>COBRA</b>	Applies	Applies	Does not apply to HSA under IRC — ERISA unclear; would apply to HDHP

<sup>9</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.](#)”



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