

HSA/FSA/HRA Comparison Chart

Purpose: This chart provides a comparison of Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs) and Healthcare Reimbursement Accounts (HRAs). This is not tax or legal advice and we do not provide tax or legal advice.

Criteria	HSA	FSA	HRA
Overview	HSAs are created at financial institutions in the employees' names and allow people to save and pay for medical expenses tax-free. Requires enrollment in a HDHP ¹ .	FSAs allow employees to pay for medical expenses (deductibles, co-pays and services not covered by their plan) tax-free. Requires employer involvement.	HRAs are the funding option that gives employers the most control. Employer determines what services are covered, and retains control over unused funds.
Contributions	Employer – Optional Payroll deferral - Optional Employee direct - Optional	Employer – Optional Payroll deferral - Optional Employee direct - Not allowed	Employer – Required Payroll deferral – Not allowed Employee direct – Not allowed
Tax Savings	Employer – deductible Payroll def– tax free + 7.65% ² Employee direct – deductible	Employer – deductible Payroll def – tax free + 7.65% ² Employee direct – Not allowed	Employer – deductible Payroll def – Not allowed Employee direct – Not allowed
Acct Owner	Employee	Employer	Employer
Earnings Investments	Generally interest paid and investments allowed. Earnings grow tax-free.	No earnings paid	Generally, no earnings paid
Eligible Expenses & Distributions	213(d) medical expenses, dental, vision, Medicare and LTC premiums, COBRA (when unemployed), Health premiums at age 65, and may withdraw at any time for any reason (subject to 10% penalty) ⁴ .	213 (d) medical expenses, dental, vision, Medicare and LTC premiums, sometimes dependent care, health insurance premiums. Cannot access for non-medical reasons.	213(d) medical expenses, dental, vision, Medicare and LTC premiums, health insurance premium, and LTC premium. Cannot access for non-medical reasons.
Claims Substantiation	Only employee required to maintain supporting records. Employer need not review.	ERISA plan - Employer or Administrator must substantiate expenses.	ERISA plan - Employer or Administrator must substantiate expenses.
Employer Involvement	None Required. Employer may contribute and allow for payroll deferral (either after-tax or through a \$125 plan).	Required. ERISA Plan	Required. ERISA plan.
Ability to Use for Multiple Year's Expenses	Yes, can save and use current year's contributions for future year's expenses. May also use future year's contributions to cover current year's expense.	No, generally must elect amount prior to the start of the year and then stick with that amount. No or limited ability to roll over for future use.	Employers generally allow some rollover for future year's use; however, money does not go with employee if the employee changes jobs.
Admin Cost	Fees vary. Fees often deducted from the HSA and paid by employee.	\$4-6 per month per employee. Fees generally paid by employer.	\$4-\$6 per month per employee. Fees generally paid by employer.

¹ High Deductible Health Plan, See Eligibility and Contribution Worksheet* for details on eligibility

² 7.65% represents FICA/FUTA savings if made through a Section 125 plan, Employees save 7.65% as well.

³ See Comparability Worksheet* and Employer Guide* for details.

⁴ See Distribution Worksheet* for details.

*NOTE: Visit your financial institution's web site to obtain a copy or ask

HSA/FSA/HRA Comparison Chart – Additional Detail

Provided below are additional details on the differences between HSAs, FSAs, and HRAs. This Comparison Chart and detail is for illustrative purposes only and should not substitute for legal or tax advice. We do not provide tax advice.

What are they and how do they compare? Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs) and Health Care Reimbursement (HRAs) are optional accounts some employers choose to offer in conjunction with health insurance coverage. The common thread between these accounts is that they all provide tax advantages and a means for employees to control a portion of their health care dollars. Some of the differences are discussed below.

What is an HSA? An HSA requires that the insured be covered under a High Deductible Health Plan ("HDHP") unlike an FSA or HRA. Also unlike an FSA or HRA, an HSA is an individual custodial account that is owned by the individual rather than the employer. That legal ownership is significant because it allows employees to use that money as they see fit: spending it on eligible health care expenses, saving it for the future, or even spending it on consumer goods (penalties apply). The fact that the account belongs to the employee also removes many of the compliance and administration requirements from the employer. For example, with HSAs the employer is not required to review receipts.

What is an FSA? An FSA is an account established as part of a Section 125 Cafeteria plan that allows employees to defer a portion of their income to pay for medical expenses on a tax-free basis. FSAs are a popular employee benefit in large part because of the tax benefits and they work with a traditional health plan. The employer owns the account and is responsible for its management, including paying claims as they occur (often this is accomplished by hiring an outside administrator). Money left over at the end of the year (or period) reverts back to the employer and not the employee.

What is an HRA? An HRA is an employer provided account that allows employees to direct a portion of their health care spending. The employer contributes funds to the employees HRA account and the employee can spend the funds on eligible health care expenses. HRAs work very similar to an FSA and HSA with one key difference being they do not allow for payroll deferral. An advantage of HRAs is their flexibility as they allow for a variety of different designs. For instance, an HRA may allow employee funds to rollover year after year and grow for future use; however, the HRA belongs to the employer. Any remaining funds belong to the employer when the employee separates from service. With an HRA the employer is also responsible for compliance and administration (often accomplished by hiring an outside administrator).

Which plan is best? Although there is no simple answer to this question, some points to consider are:

HSA. An HSA generally works well for employers that want to minimize administration and compliance issues. Also, employers seeking to minimize their costs and involvement often offer HSAs because the employer does not have to fund any portion of the account. Employers desiring to offer the most flexible solution for employees are often drawn to the HSA as it is the only one that allows for portability, the opportunity for significant investment growth, and the distribution of funds for non-medical reasons (including for any purpose at age 65 without penalty). Employees may prefer HSAs to FSAs because the funds belong to them so they do not need to worry about being as precise in estimating their medical expenses. This is especially important given that employees with HSAs are covered under High Deductible Health Plans where it is more difficult to accurately estimate expenses.

FSA. Employers offering traditional health care plans often prefer FSAs. A traditional health plan limits out-of-pocket expenses so that the rollover feature of HSAs is less important and it's also easier for an employee to estimate expenses. FSAs allow employees to defer extra income into the FSA to pay for co-pays, medical bills not covered by insurance, as well as dental and vision care. FSAs also allow for potentially greater contribution amounts than HSAs, although that is generally not a key issue for employers or employees. One significant employer benefit of FSAs over HSAs from the employer's perspective is that the employer gets to keep unspent money at the end of the year.

HRA. HRAs are generally offered by employers that self-insure all or a portion of their health care. The HRA provides a method for self-insuring employers to put in consumer-directed efforts to reduce overall health care costs and increase employee satisfaction at the same time. HRAs are more complicated to administer than HSAs. A key limitation of HRAs is that only the employer can fund the HRA.

Are HSAs, FSAs, and HRAs taxed the same? Basically all three types of plans enjoy tax-free treatment for health care expenses. How each of them arrive at this is a bit more complex. HSAs are deductible by the employer when made by the employer as a "comparable" contribution or when made by the employees through a section 125 plan. In both cases the contribution will not show as income on the employee's income tax return. Individuals may also contribute directly to an HSA and deduct the amount on their income tax return. FSA and HRA expenses are deductible by the employer and not reported as income to the employee.