

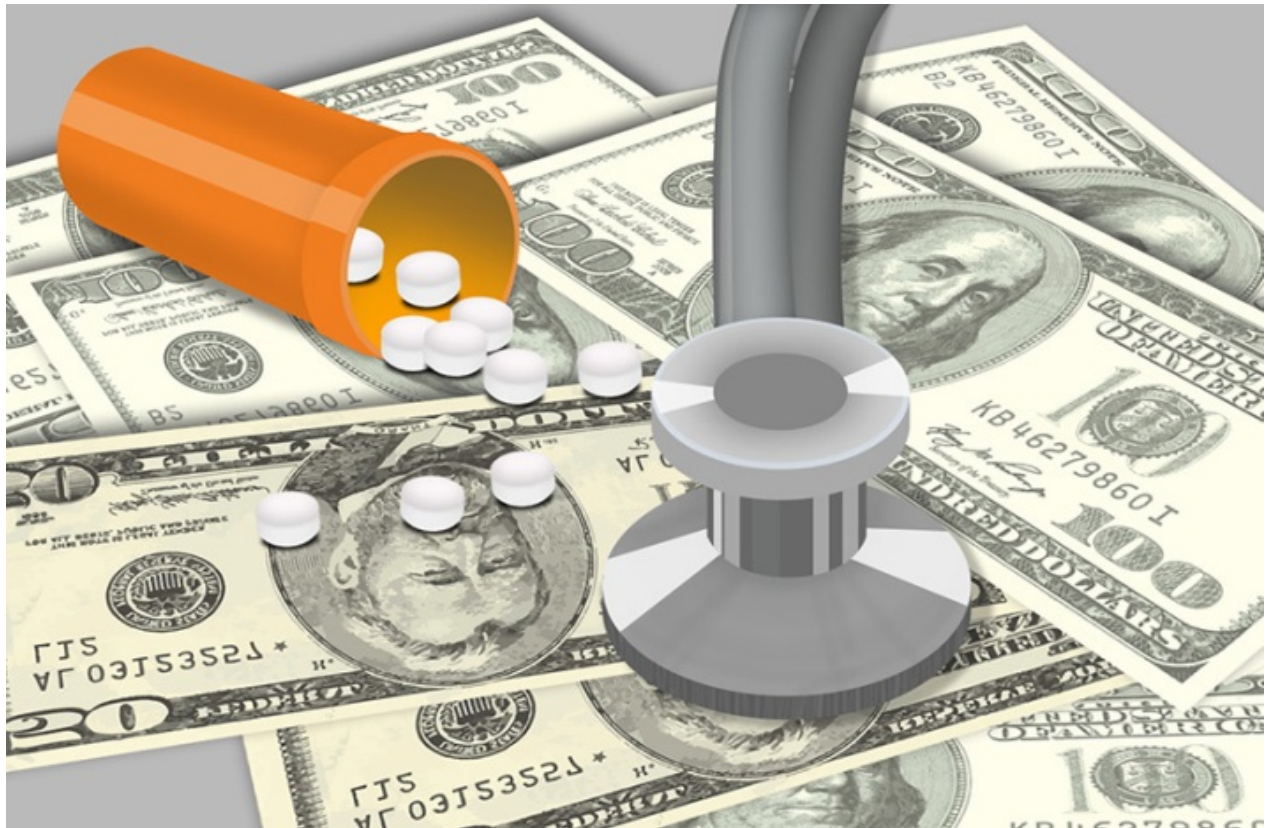
Employee Benefits Series



HSA / FSA / HRA

COMPARISON OF KEY FEATURES FOR 2016

Health Savings Account (HSA), Health Flexible Spending Arrangement (FSA),
Health Reimbursement Arrangement (HRA)



HSA / FSA / HRA: Comparison of Key Features

Overview	HSA	Health FSA	HRA
Account Description	Tax-exempt trust or custodial account <u>established by an eligible individual</u> to pay for qualified medical expenses	<u>Employer-established benefit plan</u> that allows eligible employees to be reimbursed for qualified medical expenses	<u>Employer-established benefit plan</u> that reimburses eligible employees for qualified medical expenses
Important Reminders for 2016	New <u>limits on contributions</u> and changes to requirements for <u>high deductible health plan</u> (HDHP) coverage	Annual <u>limits on contributions</u> apply. In addition, a health FSA must qualify as <u>excepted benefits</u> * and be offered through a Section 125 <u>cafeteria plan</u> , or the arrangement will <u>violate</u> certain requirements under Health Care Reform.	An HRA must be <u>integrated</u> ** with other group health plan coverage in order to meet <u>certain requirements</u> under Health Care Reform. "Stand-alone" HRAs (except for retiree-only HRAs and HRAs consisting solely of <u>excepted benefits</u>), as well as HRAs used for an employee's <u>individual insurance policy premiums</u> , do not comply with the law.
Potential Tax Benefits for Employees	<ul style="list-style-type: none"> • Employee contributions are tax-deductible (or pre-tax, if made by salary reduction) • Earnings on amounts in an HSA are not included in gross income while held in the HSA • Employer contributions are excluded from gross income and are generally not subject to employment taxes • Tax-free distributions to pay qualified medical expenses 	<ul style="list-style-type: none"> • Contributions (by both employee and employer) are generally excluded from gross income and not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed 	<ul style="list-style-type: none"> • Employer contributions are excluded from gross income and are not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed
Employee Eligibility	HSA	Health FSA	HRA
High Deductible Health Plan (HDHP) Coverage Required <small>Note: A health plan will still qualify as an HDHP even though it provides certain preventive health services without a deductible, as required by Health Care Reform.</small>	<u>Yes</u> . For 2016, the minimum annual deductible is \$1,300 for self-only coverage or \$2,600 for family coverage. The maximum deductible and other out-of-pocket expenses (excluding premiums) is \$6,550 for self-only coverage or \$13,100 for family coverage.†	No; however, a health FSA will be considered to provide <u>excepted benefits</u> only if the employer also makes available other group health plan coverage that is not limited to <u>excepted benefits</u> (and the health FSA is structured to meet certain <u>other requirements</u>)	No; however, in order to be " <u>integrated</u> " with other group health plan coverage, <u>among other requirements</u> , an HRA must be available only to employees who are enrolled in non-HRA group coverage

† Effective for plan or policy years that begin in or after 2016, non-grandfathered HDHPs **must also apply** the self-only cost-sharing limit for coverage of essential health benefits provided in-network (**\$6,850** in 2016) to **each individual** covered under the plan, even if this amount is below the family deductible limit.

HSA / FSA / HRA: Comparison of Key Features

Employee Eligibility (cont'd)	HSA	Health FSA	HRA
<p>Who May Participate</p> <p><i>Note:</i> Self-employed persons are not eligible for an FSA or HRA, and certain limitations may apply to key employees or highly compensated participants. In addition, guidance regarding the participation by same-sex spouses in HSAs, FSAs, and cafeteria plans is available.</p>	<p>An individual is eligible to establish an HSA if he or she:</p> <ul style="list-style-type: none"> • Is covered under a high deductible health plan (HDHP) • Is not covered by any other health plan that is not an HDHP (including coverage in a general purpose health FSA solely as a result of unused carryover amounts from the prior year), except for certain limited types of coverage • Is not enrolled in Medicare • May not be claimed as a dependent on another person's income tax return 	<p>Employer sets rules for eligibility</p> <p>Health FSAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)). Employers also must comply with nondiscrimination rules for cafeteria plans under Section 125 regarding eligibility, contributions, and benefits for highly compensated and key employees.</p>	<p>To be "integrated" with other group health plan coverage, among other requirements, an HRA must be available only to employees who are enrolled in non-HRA group coverage—either another group health plan that does not consist solely of excepted benefits or a group health plan that provides minimum value.</p> <p>HRAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)).</p>
Contributions	HSA	Health FSA	HRA
<p>Who May Contribute</p>	The employee, the employer, or both may contribute (family members or any other person may also contribute)	The employee, the employer, or both may contribute to the health FSA	Only the employer may contribute
<p>Limit on Contributions</p>	<p>Yes. For 2016, the maximum contribution is \$3,350 for self-only coverage or \$6,750 for family coverage. The limit is increased by \$1,000 for eligible individuals age 55 or older at the end of the tax year.</p>	<p>Yes. For 2016, salary reduction contributions to a health FSA are limited to \$2,550 (unchanged from 2015).</p> <p>A health FSA will be considered to provide excepted benefits only if the arrangement is structured so the maximum benefit payable to any participant cannot exceed 2X the participant's salary reduction election for the health FSA for the year (or, if greater, cannot exceed \$500 plus the amount of the salary reduction election), and certain other requirements are met.</p>	<p>While there is no limit on the amount of money an employer may contribute to an employee's HRA, annual dollar limits on coverage of essential health benefits are prohibited.</p> <p>HRAs that are "integrated" with a group health plan that itself has no annual limits will comply with the requirement to eliminate annual limits, while "stand-alone" HRAs (except for retiree-only HRAs and HRAs consisting solely of excepted benefits) violate the rule.</p>

HSA / FSA / HRA: Comparison of Key Features

Contributions (cont'd)	HSA	Health FSA	HRA
Pre-Tax Employee Contribution Allowed	<p><u>Yes</u>, contributions can be made through employee salary reductions under a cafeteria plan</p>	<p>Yes, typically funded through salary reduction agreements in which employees elect an amount to be voluntarily withheld from wages</p> <p>(A health FSA must be offered through a Section 125 cafeteria plan in order to be exempt from the annual dollar limit prohibition under Health Care Reform.)</p>	<p>No, funded solely through employer contributions</p>
Employer Participation	<p>If the employer contributes, it must make comparable contributions to all comparable participating employees' HSAs.</p> <p>The comparability rules do not apply to HSA contributions made through a cafeteria plan. However, the employer must comply with the Section 125 non-discrimination requirements.</p>	<p>Any contributions made by the employer must comply with the nondiscrimination requirements under IRC Sections 105(h) and 125.</p>	<p>Employer contributions must not discriminate in favor of highly compensated individuals as provided by IRC Section 105(h).</p>
Distributions	HSA	Health FSA	HRA
Distributions Allowed	<p>Distributions used exclusively to pay for qualified medical expenses of the employee and his or her spouse and dependents are tax-free.</p> <p>Any amount of the distribution not used exclusively to pay for qualified medical expenses is included in the employee's gross income and may be subject to an additional 20% tax.</p> <p>Note: Employees who cover dependents to age 26 under an HDHP may not use HSA funds for reimbursement on a tax-free basis for an adult child's medical expenses, unless the adult child qualifies as a tax dependent of the employee.</p>	<p>A health FSA may only reimburse qualified medical expenses incurred by an employee and his or her spouse and dependents, as well as the employee's adult child under age 27 as of the end of the taxable year (regardless of whether the adult child qualifies as a tax dependent of the employee).</p>	<p>Reimbursements under an HRA can only be made on a tax-free basis for qualified medical expenses to current and former employees (and their spouses and dependents), as well as to spouses and dependents of deceased employees, and to the employee's adult child under age 27 as of the end of the taxable year (regardless of whether the adult child qualifies as the employee's tax dependent).</p>

HSA / FSA / HRA: Comparison of Key Features

Distributions (cont'd)	HSA	Health FSA	HRA
Timing of Distributions	An eligible employee may receive distributions from an HSA at <u>any time for qualified medical expenses</u> that are not reimbursed by the HDHP; however, expenses incurred before an HSA is established are not qualified medical expenses.	Expenses are incurred when services are provided. Expenses incurred before or after the period of coverage may not be reimbursed. Employees are entitled to receive the maximum reimbursement at any time during the coverage period, <u>regardless of the amount that has been contributed</u> (reduced by any prior reimbursements).	An HRA may not reimburse expenses for medical care incurred <u>before the date the HRA is in existence or before the date an employee first becomes enrolled under the HRA.</u>
Qualified Medical Expenses	Generally, qualified medical expenses are those expenses paid for "medical care" as defined in IRC <u>Section 213(d)</u> . Health insurance premiums are generally not considered qualified medical expenses for HSA purposes, <u>unless the premiums are for:</u> <ul style="list-style-type: none"> • Qualified long-term care insurance (premiums are subject to limits based on age and are adjusted annually) • Health care continuation coverage required by federal law (e.g., COBRA) • Health care coverage while an individual is receiving unemployment • Medicare and other health care coverage if the employee is 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap) 	Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC <u>Section 213(d)</u> . A health FSA may be limited to a subset of permitted Section 213(d) medical expenses. FSA distributions are <u>not permitted for the following expenses:</u> <ul style="list-style-type: none"> • Amounts paid for health insurance premiums • Amounts paid for long-term care coverage or expenses • Amounts that are covered under another health plan <p>Note: Under Health Care Reform, group health plans are required to cover certain <u>preventive services</u> without cost-sharing. A health FSA that does not qualify as <u>excepted benefits</u> fails to meet the preventive services requirements.</p>	Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC <u>Section 213(d)</u> . For purposes of HRA reimbursement, <u>qualified medical expenses include:</u> <ul style="list-style-type: none"> • Amounts paid for health insurance premiums* • Amounts paid for long-term care coverage • Amounts that are not covered under another health plan <p>Note: HRAs that are "<u>integrated</u>" with a group health plan that itself complies with the preventive services requirement are also <u>deemed to comply</u>, while "stand-alone" HRAs (except for retiree-only HRAs and HRAs consisting solely of <u>excepted benefits</u>) violate the rule.</p> <p>*HRAs used for employees' individual insurance policy premiums <u>violate</u> both the annual dollar limit prohibition and preventive services requirements.</p>

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Other Issues	HSA	Health FSA	HRA
Balance and Carryover	Amounts remaining in an HSA at the end of the year are <u>generally carried over</u> to the next year.	Amounts of <u>up to \$500</u> remaining in a health FSA at the end of the plan year may be carried over to the immediately following plan year or, alternatively, a plan may provide for a <u>grace period</u> of up to 2 ½ months after the end of the plan year in which the employee may use amounts remaining from the previous year. Note: An individual who is covered by a general purpose health FSA is <u>not eligible to make HSA contributions</u> during the entire plan year of the health FSA, even if the individual has coverage solely as a result of unused carryover amounts from the prior year.	Amounts that remain in the HRA at the end of the year can <u>generally be carried over</u> to the next year. The employer is not permitted to refund any part of the balance to the employee.
Account Subject to COBRA	No	Yes, but FSAs that meet <u>certain conditions</u> may provide COBRA continuation coverage on a more limited basis	Generally yes
Portability	Yes, the employee is the owner of the account	No	No, the employer is the owner of the account

*Benefits provided under a health FSA are excepted for a class of participants only if they satisfy two requirements:

1. Other group health coverage, not limited to excepted benefits, is made available for the year to the class of participants by reason of their employment; and
2. The arrangement is structured so that the maximum benefit payable to any participant in the class for a year cannot exceed two times the participant's salary reduction election under the health FSA for the year (or, if greater, cannot exceed \$500 plus the amount of the participant's salary reduction election). **Note:** Unused carryover amounts remaining at the end of a plan year that satisfy the modified "use-or-lose" rule are not taken into account when determining if this requirement is satisfied.

**An HRA will be integrated with a group health plan if it meets the requirements under either of two integration methods described in the agency guidance. Both methods require that the HRA be available only to employees who are enrolled in non-HRA group coverage—either another group health plan that does not consist solely of excepted benefits or a group health plan that provides minimum value, regardless of whether the employer sponsors the plan.

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Provided by:



Sheridan Benefits LLC
8685 Sheridan Dr
Williamsville, NY 14221

Phone: (716) 580-3773
www.Sheridanbenefits.com

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