HELPING EMPLOYERS CHOOSE BETWEEN

FSA, HSA & HRA

Clarity BENEFIT SOLUTIONS™

REDUCING THE COST OF **EMPLOYEE BENEFITS**

The cost of employee health benefits is rising at an exponential rate. As an employer, you may be searching for ways to control costs – including exploring alternative benefit models or shifting more of the cost burden to your employees in the form of higher deductibles, more limited premium cost-sharing, or reduced coverage.

However, cost reduction efforts must be balanced with the need to maintain employee satisfaction, attract and retain talent. Tax-advantaged benefit accounts represent a compelling way to help offset the increase in your employees' out-of-pocket healthcare responsibilities. Flexible spending accounts (FSAs), health savings accounts (HSAs) and Health Reimbursement Arrangements (HRAs) will not only empower your employees to save for the cost of care and better manage their healthcare spending – every dollar contributed will reduce your payroll tax liability.

DIFFERENCES BETWEEN AN **FSA, HSA & HRA**

CRITERIA	FSA	HSA	HRA
OVERVIEW	An FSA is a Flexible Spending Account, which is a cafeteria plan created to reimburse qualified medical expenses, health insurance premiums for premium-only accounts or dependent care expenses.	An HSA is a Health Savings Account, which works with a qualified high-deductible health plan (HDHP). Employees use the account to pay for their - or their dependents' - qualified medical expenses.	An HRA is a Health Reimbursement Arrangement, which is an employer-funded account used to reimburse employees as well as covered dependents for eligible medical expenses based on IRS guidelines.
GENERAL PURPOSE	Funding predictable healthcare expenses in the current year with pre-tax dollars.	Funding a lifetime of healthcare expenses with pre-tax dollars.	Employer provided funding of healthcare expenses with non-taxable dollars.
ACCOUNT OWNER	**Employer** - Because the account belongs to you, an employee's participation in the plan ends when employment is terminated	**Employee** - Because the account belongs to the employee, they maintain ownership after they leave your company	**Employer** - Because the account belongs to you, an employee's participation in the plan ends when employment is terminated

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HEALTH PLAN PAIRINGS	Can be paired with any group health plan.	Must be paired with a qualified HDHP: • Deductible not less than $1,400 for single or $2,800 for family • Annual out-of-pocket expenses do not exceed $7,050 for single or $14,100 for family	Can be paired with any group health plan. Some HRA's, like QSEHRA or ICHRA, can be offered without a group health plan and funds can be used to purchase individual plans.
DISTRIBUTION OF FUNDS	**Eligible Medical Expenses Only** - Funds may be used to pay for 213(d) eligible expenses only; cannot access for non-medical reasons.	**Eligible Medical Expenses with Exceptions** - Funds are to be used to pay for 213(d) eligible expenses, but may be withdrawn for nonmedical expenses with a 10% penalty.	**Eligible Medical Expenses Only** - Employer determines HRA eligible expenses. Expenses must be allowable under 213(d).
TIMING OF USAGE	**FSA with rollover** - Up to $570 of remaining balance may be rolled over to be used in the following plan year. **FSA with Grace Period** - Account balance must be used by the end of the grace period for that plan year; unused balance is forfeited.	**Funds Are Never Forfeited** - Reimbursement can be made for any eligible expense incurred from the HSA established date to the current date; funds do not expire, making an HSA an excellent savings vehicle.	**Funds are forfeited based on employer** - You can choose to have unused funds roll over from year to year. However, rollover is not required.
INTEGRATION WITH OTHER FUND ACCOUNTS	A health care FSA can be paired with an HRA.	HSAs can only be paired with an (LPFSA), a limited-purpose or post-deductible FSA.	An HRA can be paired with an FSA and in some cases with an HSA.
EARNINGS INVESTMENTS	No earnings paid.	Some HSA offerings provide integrated investment options and/or interest benefits.	No earnings paid.

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CRITERIA	FSA	HSA	HRA
TAX SAVINGS	**Tax-deductible** - Employer contributions are tax-deductible . **Tax-free** - Employee contributions made via payroll deduction are taken out prior to income tax assessment.	**Tax-deductible** - Employer contributions and contributions made by employees above the line (i.e. from their bank account) are tax-deductible. **Tax-free** - Employee contributions made via payroll deduction are taken out on a pre-tax basis.	**Tax-deductible** - All employer contributions to the plan are 100% tax-deductible to the employer. **Tax-free** - Reimbursements for eligible medical expenses to the employee are tax-free.
		CONTRIBUTIONS	
SOURCE OF CONTRIBUTIONS	Employer: optional Payroll deferral: optional From employee bank account: not allowed.	Employer: optional Payroll deferral: optional From employee bank account: optional.	Employer
CONTRIBUTIONS	Annual election amount is determined by the participant during open enrollment and deducted evenly per pay period; Full election is available on day one of plan year. Changes may only be made due to a qualified life event (marriage, birth, etc.).	Annual election amount is determined by the participant during open enrollment and deducted evenly per pay period; Employees can adjust contributions throughout the year up to IRS limit; Employers may also contribute.	Contribution amounts are determined by the employer.
CONTRIBUTIONS LIMIT	IRS limit of $2,850.	IRS limit of Single: $3,650 / Family: $7,300; There is an additional $1,000 catch-up contribution allowed for individuals 55+.	No limits except for QSEHRA.
		DISBURSEMENTS	
DIRECT ACCESS TO FUNDS	Pay providers directly via debit card and get reimbursed by check or direct deposit.	Pay providers directly via debit card, check or on the providers website via ACH.	Pay providers directly via debit card or by claim submission (debit card ability varies by plan design).
CLAIMS FOR REIMBURSEMENT	Submit a claim for reimbursement with receipts online, by fax, or using the mobile app.	Employees pay for eligible expenses directly from the account.	Employee can submit claim for reimbursement.

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SUBSTANTIATION REQUIREMENT	Receipts and Explanation of Benefits (EOBs) should be kept for all purchases; Your plan administrator may require them for reimbursement.	There is no requirement for substantiation. The participant is solely responsible for proper use of funds. Documentation should be kept in case of IRS audit.	Receipts and Explanation of Benefits (EOBs) should be kept for all purchases; Your plan administrator may require them for reimbursement.
CASH WITHDRAWAL	Not permitted.	Cash withdrawals are allowed. The cash must be used on an eligible expense or be subject to a 10% penalty; After age 65, cash withdrawals can be made for non-eligible expenses penalty-free but subject to income taxes.	Not permitted.

PRIMARY BENEFIT PLANS

All three plans provide advantages for both the employee and the employer:

- Tax-free treatment of healthcare expenses
- Contributions that are payroll-deferred are not reported as income to the employee, resulting in payroll tax savings for the employer and income tax savings for the employee.
    - **Employers** can save approximately 7.65%* in reduced payroll taxes on total contributions.
    - **Employees** making contributions will save between 15-40% by avoiding federal and state income taxes as well as the employee half of payroll taxes.

* These figures are based on the employer half of FICA and FUTA. The information detailed is for illustrative purposes only and should not substitute for legal or tax advice.

WHICH PLAN TO CHOOSE

FSA - FSAs do not require participation in a HDHP, so they are most frequently offered in conjunction with traditional health plans. Traditional health plans limit out-of pocket expenses for participants making it easier for an employee to estimate annual medical expenses by calculating projected copays, deductible amounts, coinsurance, etc. Although the addition in late 2013 of the rollover feature minimizes forfeited funds, employers may still find incentive in their ability to retain these funds.

HSA - Employers who are seeking to minimize the cost of providing health benefits by offering a HDHP will generally offer an HSA. Since compliance requires less paperwork, they can often save on administrative costs. HSAs offer employees a broader value proposition: the ability to pay for current or future expenses without fear of forfeiting dollars, triple tax advantage, investment growth potential, and the option to pay for non-medical expenditures if necessary.

HRA - HRAs do not require participation in a HDHP, so like FSAs, they are also usually offered in conjunction with traditional health plans. When it comes to HRAs, the tax benefit is for the employer since you are the one contributing the funds. The employee also benefits by not paying taxes on money that is spent.

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