

Which is the best option?

105 HRA vs. HSA

Self-employed business owners find themselves wondering which is better, HRA or HSA. BASE® has put together a comparison of the typical BASE® Section 105 HRA vs. an HSA to help clarify the difference between these two popular benefit plans.

As self-employed business owners look to consumer-driven health plans to help control costs, they continue to find various options that have very different advantages. BASE® believes that the HRA is the best direction for the self-employed looking to save benefit dollars. Not only has the HRA been around since 1954, unlike the HSA which has only been around since 2003, but it works with any health insurance plan.

Sole Proprietor, Partnership, C or S Corporations, LLC	HSA Health Savings Account (HSA)	HRA Health Reimbursement Arrangement (HRA)	HRA Advantage
	An account created in conjunction with a High Deductible Health Plan (HDHP) to pay for qualified medical expenses	An employer funded benefit plan, without any salary reduction, that reimburses employees for qualified medical expenses	
Eligibility	Any individual covered under a qualifying HDHP & not qualified for Medicare or under another non-qualifying health plan	Any employee that satisfies the employer established non-discrimination rules under IRC 105 (h)	The HRA does not require a High Deductible Health Plan (HDHP)
Health Plan Requirements	Must have qualifying HDHP. For individual coverage, an annual deductible no less than \$1,350 with a maximum annual out-of-pocket limit of no more than \$6,750. For family coverage, an annual deduction no less than \$2,700 with a maximum annual out-of-pocket limit of no more than \$13,500	NONE	The HRA will work with any Health Insurance policy, regardless of deductible amounts & out-of-pocket maximums
Funding	Employer &/or employee funded; pre-funding required	Employer funded; pre-funding not required. These funds are not transferred to/from BASE®	Employer controls funding amounts of the HRA, so funds are not transferred to/from a third party. This allows for more control by the employer.
Contribution Limits	100% of the deductible or \$3,500/\$7,000 whichever is less. *Born before 1962, add \$1,000	Unlimited *Within plan parameters	The HRA is unlimited, while the HSA is restricted to a maximum (individual/family) funding amount per year
Tax Treatment	Employer portion is non-taxable to the employee & deductible by the employer. Employee funding is typically a post-tax contribution & deductible as a personal expense on the 1040.	Non-taxable to the employee, deductible by the employer	HRA is 100% deductible from a federal, state, & self-employment tax standpoint
Non-Discrimination Requirements	Employer must make "comparable" contributions for all employees	Subject to non-discrimination requirements under 105(h)	With an HRA, the employer has the ability to exclude certain employees (i.e. Part-Time, Age, Length of Service)
Allowed Benefits	Reimbursements of qualified medical expenses under Code Section 213 (d)	Reimbursements of qualified health insurance premiums & medical expenses under Code Section 213 (d)	The HRA can be used for health insurance premiums**, while the HSA cannot
Carryover	Unused funds may be carried forward to subsequent years	Unused funds may be carried forward to subsequent years	_____

** Receiving a subsidy means premiums are unable to be reimbursed through the HRA.

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