# Which is the best option?

# 105HRA 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 $1,400 with a maximum annual out-of-pocket limit of no more than $7,000. For family coverage, an annual deduction no less than $2,800 with a maximum annual out-of-pocket limit of no more than $14,000 | 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 $3,600/$7,200 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.

*Note: This publication is for informational purposes only. The IRS releases limits & maximums throughout each year. Therefore, be sure to check IRS.gov for more updates by the IRS after the date of this publication.*

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