

Which is the best option?

HRA vs. HSA vs. FSA

Health care accounts are not all created equal. To help you understand the difference between HSAs, HRAs, & FSAs, take a look at the comparison chart below.

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.

| | HSA Health Savings Account (HSA) | HRA Health Reimbursement Arrangement (HRA) | FSA Flexible Spending Account (FSA) |
|---|--|---|--|
| Definition | An HSA is a tax-advantaged savings account that is used in combination with a high deductible health plan (HDHP). Consumers use the HSA funds to cover qualified medical expenses. | An HRA is an employer-funded plan that may be used to reimburse employees for qualified medical expenses. | An employer-established, tax-advantaged account funded by the employee &/or the employer to pay for qualified medical expenses with pre-tax dollars. |
| Who "owns" account? | Individual/Employee | Employer | Employer |
| Who can contribute to the account? | Individual/Employee, Employer | Employer only | Employee & Employer |
| Where are funds held? | In HSA Deposit Account - Qualified Financial Institution & Mutual Funds | By Employer | By Employer |
| Pre-tax payroll deductions allowed? | Yes | No | Yes |
| Annual maximum limit on contributions (www.irs.gov) | Yes ¹ | No ² | Yes ³ |
| Entire election available for reimbursement at start of plan year? | No | Depends on plan design | Yes |
| What distributions are allowed? | Debit Card ⁴ Request for distribution or bill-pay Online/Paper | Debit Card "Claim" - Request for reimbursement or bill pay Online/Mobile/Paper | Debit Card "Claim" - Request for reimbursement or bill pay Online/Mobile/Paper |
| Substantiation | Not required for payment ⁵ | Required | Required |

1. IRS-imposed HSA limits for 2025: The 2025 annual HSA contribution limit for individuals with self-only HDHP coverage is \$4,300 (a \$150 increase from 2024), & the limit for individuals with family HDHP coverage is \$8,550 (a \$250 increase from 2024). Annual catch-up contributions for those 55 & over: \$1,000 (remains unchanged).

2. IRS does not impose HRA limits; limits are set by employer.

3. Employee contribution limits for 2024 for FSAs cannot exceed \$3,200 per IRS Rules. Employer contributions may not discriminate in favor of highly compensated individuals. Health care reform limits employer contributions to \$640 per year or an arrangement in which employer contributions will not exceed the employee's contributions, such as a one-to-one match, up to \$3,200.

4. HSA, HRA, & FSA debit cards are automatically restricted for use with medical service providers & for items purchased at retail that are identified as qualified medical expenses based on electronic inventory control codes.

5. HSA distributions subject to IRS audit to prove they do not exceed out-of-pocket qualified medical expenses since HSA opened.

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| | HSA Health Savings Account (HSA) | HRA Health Reimbursement Arrangement (HRA) | FSA Flexible Spending Account (FSA) |
|--|---|---|---|
| Must have Health Plan? | Yes, Qualified HDHP whether through employer or not | Beginning in 2014, employees had to be enrolled in employer-sponsored group coverage unless the HRA is limited to vision or dental expenses ⁶ | No. But employer must offer qualified health coverage |
| Can have other (non HDHP) Health Plan? | No, except for certain permissible coverage such as dental or other limited purpose plan(s) ⁷ | Yes | Yes |
| Tax Benefit | Contributions are tax free, interest & investments gains are tax free & withdrawals are tax free when used for qualified medical expenses | Employer deposits & claim payments are tax free | Employer/Payroll deposits & claim payments are tax free |
| Interest Earning? | Interest can be accrued on a tax-deferred basis in qualified HSAs. If the account balance reaches the minimum balance requirement, the funds can be invested in mutual funds & those gains are also tax free. | No | No |
| Access to funds after termination | Individual account not tied to employment status | Employee must be offered COBRA | Employees must be offered COBRA (usually until the end of the year) |
| Employees carry over unused amounts | Yes. The individual owns the account & any contributions made to it, regardless of the source or timing of the contribution | Employer discretion | Limited to up to \$640 carryover to the immediately following plan year OR a grace period ⁸ |
| What is the tax treatment for employer contributions? | Employer contributions may qualify as a deductible business expense & are exempt from FICA & other employment taxes | Employer contributions may qualify as a deductible business expense & are exempt from FICA & other employment taxes | Employer contributions may qualify as a deductible business expense & are exempt from FICA & other employment taxes |
| What is the tax treatment for employee contributions? | Employee contributions may be made through a cafeteria plan & are tax free. If made outside of a cafeteria plan, they are treated as an "above the line" deduction | Employees are not permitted to contribute to an HRA | Employee contributions to an FSA are made on a pre-tax basis, & therefore reduce annual taxable income |
| What expenses qualify for distribution? | Medical expenses under 213(d) of the Internal Revenue Code. HSAs may not be used to pay insurance premiums except for (1) COBRA, (2) qualified long-term care insurance, (3) health care coverage while the individual is receiving unemployment compensation; & (4) premiums for Medicare Part A or B, Medicare HMO, & (5) after age 65, the employee's share of employer-sponsored retiree health care. | Employers configure the account to reimburse all or a subset of any otherwise unreimbursed expenses that are qualified under 213(d) of IRC. This can include health insurance premiums (other than premiums that are paid through an employer's cafeteria plan) & long-term care insurance premiums. However, long-term care services are not reimbursable. | Any otherwise unreimbursed medical expenses that are defined under 213(d) of IRC. Health insurance premiums & long-term care services are not reimbursable. |

This Plan Comparison Chart is a summary of differences between plan types, & it does not describe all of the rules & limitations that apply to these arrangements. It is not legal or tax advice. See IRS **Publication 969**, *Health Savings Accounts & Other Tax-Favored Health Plans*, for more information on HSAs, HRAs, & FSAs.

6. PHS Act sec 2711, per DOL FAQ re: PPACA Part XI Q1, Q# <http://www.dol.gov/ebsa/faqs/faq-a11.html> HRA Enrollees must be enrolled in group health plan.

7. Dental, vision, accident, disability, long-term care, workers' compensation, specified disease or illness, & fixed dollar hospitalization, certain deductible plans.

8. Employers may elect to have (i) a "grace" period for employees to use leftover funds from a previous plan year to pay for expenses incurred in the period up to 2 months & 15 days into the new plan year; or (ii) a carryover of up to \$640 to the new plan year for payment of medical expenses during the entire year in which it is carried over.