

HSA / FSA / HRA

Comparison of Key Features for 2023

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



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OVERVIEW	HSA	Health FSA	HRA
Account Description	Tax-exempt trust or custodial account established by an eligible individual to pay for qualified medical expenses	Employer-established benefit plan that allows eligible employees to be reimbursed for qualified medical expenses	Employer-established benefit plan that reimburses eligible employees for qualified medical expenses
What are some advantages to it?	<ul style="list-style-type: none"> • HSAs make an employer's benefits package more attractive by helping employees pay out-of-pocket medical expenses in a tax-advantaged way. • Employer contributions to employees' HSAs are generally deductible business expenses. • All compliant HSA contributions are tax-exempt for the employee. 	<ul style="list-style-type: none"> • No federal income tax or employment tax on contributions. • Tax-free distributions for qualified medical expenses. Employee can draw on the account for medical expenses before funds are placed in it. 	<ul style="list-style-type: none"> • No federal income tax or employment tax on contributions. • Tax-free distributions for qualified medical expenses. • Funds can be carried over from year to year at employer's discretion.
Potential Tax Benefits for Employees	<ul style="list-style-type: none"> • Employee contributions are tax-deductible or pre-tax (if made by salary reduction) • Employer contributions are excluded from gross income and are generally not subject to employment taxes • Earnings on amounts in an HSA are not included in gross income while held in the HSA • Tax-free distributions to pay for 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

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EMPLOYEE ELIGIBILITY	HSA	Health FSA	HRA
High Deductible Health Plan (HDHP) Coverage Required? 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	Yes. For 2023, the minimum annual deductible is \$1,500 for self-only coverage or \$3,000 for family coverage. For 2023, the maximum deductible and other out-of-pocket expenses (excluding premiums) is \$7,500 for self-only coverage or \$15,000 for family coverage.*	No; however, a health FSA will be considered to provide excepted benefits* only if the employer also makes available other group health plan coverage that is not limited to excepted benefits (and the health FSA is structured to meet certain other requirements)	No; however, in order to be " integrated "*** with other group health plan coverage, among other requirements, an HRA can be made available only to employees who are enrolled in non-HRA group coverage. However, employers wishing to establish a QSEHRA ** cannot offer a group health plan to any of their employees, among other eligibility requirements.
Who May Participate Note: Self-employed persons are not eligible for a health FSA or HRA.	An individual is eligible to establish an HSA if he or she: <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 	Employer sets rules for eligibility. 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.	To be " integrated "*** with other group health plan coverage, among other requirements, an HRA can be made available only to employees who are enrolled in non-HRA group coverage. QSEHRAs ** must be provided on the same terms to all eligible employees (defined as any employee of an eligible employer). Employers may generally exclude employees who: have not completed 90 days of service; have not attained age 25; or are part-time or seasonal. HRAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)).

* Non-grandfathered HDHPs must also apply the self-only cost-sharing limit for coverage of essential health benefits provided in-network (**\$9,100** for 2023) to **each individual** covered under the plan, even if this amount is below the family deductible limit.

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CONTRIBUTIONS	HSA	Health FSA	HRA
Who May Contribute	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	Only the employer may contribute
Limit on Contributions	Yes. For 2023, the maximum contribution is \$3,850 for self-only coverage, or \$7,750 for family coverage. The limit is increased by \$1,000 for eligible individuals age 55 or older at the end of the tax year.	Yes. For 2023, salary reduction contributions to a health FSA are limited to \$3,050 . 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 two times 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.	No limit on the amount of money an employer may contribute to an employee's HRA if the HRA is " integrated "**** with a group health plan that itself has no annual limits. For QSEHRAs **, annual payments and reimbursements must generally be limited to \$5,850 per employee or \$11,800 per family .
Pre-Tax Employee Contribution Allowed	Yes, contributions can be made through employee salary reductions under a cafeteria plan	Yes, typically funded through salary reduction agreements in which employees elect an amount to be voluntarily withheld from wages (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)	No, funded solely through employer contributions

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CONTRIBUTIONS	HSA	Health FSA	HRA
Employer Participation	Employer contributions made through a cafeteria plan are subject to the Section 125 nondiscrimination requirements. All other employer contributions are subject to the "comparability rules," meaning that the employer must make comparable contributions to all comparable participating employees' HSAs.	Any contributions made by the employer must comply with the nondiscrimination requirements under IRC Sections 105(h) and 125	Employer contributions must not discriminate in favor of highly compensated individuals as provided by IRC Section 105(h)
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 distribution amount 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>	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>Reimbursements under an HRA can only be made on a tax-free basis for qualified medical expenses to:</p> <ul style="list-style-type: none"> • Current and former employees (and their spouses and dependents); • Spouses and dependents of deceased employees; and • The employee's adult children under age 27 as of the end of the taxable year (regardless of whether the adult children qualify as a tax dependent of the employee).

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DISTRIBUTIONS	HSA	Health FSA	HRA
Timing of Distributions	An eligible employee may receive distributions from an HSA at any time for qualified medical expenses not reimbursed by the HDHP; however, expenses incurred before an HSA is established are not considered 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, regardless of the amount that has been contributed (reduced by any prior reimbursements).	An HRA may not reimburse expenses for medical care incurred before the date the HRA is in existence or before the date an employee first becomes enrolled under the HRA
Qualified Medical Expenses	<p>Generally, qualified medical expenses are those expenses paid for "medical care" as defined in IRC Section 213(d).</p> <p>Health insurance premiums are generally not considered qualified medical expenses for HSA purposes, unless the premiums are for:</p> <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) 	<p>Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC Section 213(d).</p> <p>A health FSA may be limited to a subset of permitted Section 213(d) medical expenses.</p> <p>FSA distributions are not permitted for the following expenses:</p> <ul style="list-style-type: none"> • Amounts paid for health insurance premiums • Amounts paid for long-term care coverage or expenses • Amounts covered under another health plan <p>Note: Under Health Care Reform, group health plans are required to cover certain preventive services without cost-sharing. A health FSA that does not qualify as excepted benefits* fails to meet the preventive services requirements.</p>	<p>Qualified medical expenses are those that generally would qualify as expenses for "medical care" as defined in IRC Section 213(d).</p> <p>For purposes of HRA reimbursement, qualified medical expenses include:</p> <ul style="list-style-type: none"> • Amounts paid for long-term care coverage • Amounts that are not covered under another health plan <p>Note: In general, HRAs used for employees' individual insurance policy premiums violate both the annual dollar limit prohibition and preventive services requirements under Health Care Reform. However, an exception exists for QSEHRAs**.</p>

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REQUIREMENTS	HSA	Health FSA	HRA
What requirements must an employer satisfy?	<p>If contributing to employees' HSAs through a cafeteria plan, the employer must satisfy certain cafeteria plan non-discrimination rules. All contributions to employees' HSAs outside of a cafeteria plan must be made on a comparable basis to all comparable participating employees. Comparable contributions must be either:</p> <ul style="list-style-type: none"> • The same amount; or • The same percentage of the annual deductible limit under the HDHP covering the employees. <p>Comparable participating employees:</p> <ul style="list-style-type: none"> • Are covered by an HDHP offered by the employer; Are eligible to establish an HSA • Have the same category of coverage (self-only or family coverage); and • Have the same category of employment (generally part-time or full-time). 	<ul style="list-style-type: none"> • Have a written Plan Document. • Distribute a Summary Plan Description (SPD) within 90 days of the employee becoming a plan participant. • Offer the health FSA as part of a cafeteria plan. • Offer employees traditional group health insurance. • If making contributions, meet the Section 105(h) and 125 non-discrimination rules. • Comply with the rules on mid-year election changes. <p>Set the maximum benefit amount for each employee so that it does not exceed:</p> <ul style="list-style-type: none"> • Two times the employee's health FSA salary reduction election for the year; or • If greater, \$500 plus the amount of the employee's health FSA salary reduction election for the year <p>Annually file IRS Form 720 and pay PCORI fees by July 31.</p>	<ul style="list-style-type: none"> • Have a written Plan Document. • Distribute a Summary Plan Description (SPD) within 90 days of the employee becoming a plan participant. • Employer contributions must meet the Section 105(h) and 125 non-discrimination rules. • Traditional HRAs generally must be offered along with a traditional group health plan. Violations of this requirement can lead to penalties of up to \$100 per day per employee. Click here for more information. • Must substantiate all reimbursement claims. • Must annually file IRS Form 720 and pay PCORI fees by July 31.
Can employers offer or contribute to it without also offering a group health plan?	Yes, so long as those employees are eligible to have an HSA	No.	Generally, no.

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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 generally carried over to the next year	Amounts of up to \$610 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 grace period 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 not eligible to make HSA contributions 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 remaining in the HRA at the end of the year can generally be carried over 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 certain conditions may provide COBRA continuation coverage on a more limited basis	Generally yes
Portable to the Employee?	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.

** [Federal law](#) allows eligible small employers—generally those with **fewer than 50 full-time employees who do not offer a group health plan**—to offer "**qualified small employer HRAs**" to reimburse employees for qualified medical expenses, including individual health insurance premiums.

***An HRA will be integrated with a group health plan if it meets the requirements under either of two integration methods described in [agency guidance](#), as clarified by [ACA FAQs](#).

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For More Information

Please review IRS [Publication 969](#) for a detailed explanation of HSAs, health FSAs, and HRAs, as well as IRS [Publication 15-B](#) for additional information regarding the tax treatment of these types of arrangements.

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