

## COMPARISON OF APPROACHES

	<u>Health Savings Accounts (HSAs)</u>	<u>Health Flexible Spending Arrangements (FSAs)</u>	<u>Health Reimbursement Arrangements (HRAs)</u>
<b>What is it?</b>	A tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the account beneficiary.	Qualified benefit offered through a cafeteria plan authorized under Section 125 of the Internal Revenue Code.	An employer-funded account that reimburses employees for qualified medical care expenses.
<b>Who is eligible to set up an account?</b>	Individuals and families covered by qualified high deductible health plans (HDHPs).	An employee whose employer offers an FSA option. Employees may also set up a Dependent Care Account for qualifying dependents.	An employee whose employer offers an HRA.
<b>Is a specific Health Insurance Policy required?</b>	Yes- Qualified HDHPs.	No.	No.
<b>What medical expenses qualify?</b>	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code.	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code, or expenses as specifically determined by sponsor.
<b>Are withdrawals for non-medical expenses allowed?</b>	Yes, but distributions not used exclusively to pay "qualified medical expenses" are included in income and subject to an additional tax (penalty) of 10%.	No.	No.
<b>What Tax Savings apply?</b>	Employee contributions are made on a pre-tax basis; employee copayments for health expenditures are not taxed; and there is no tax on earnings. Employer contributions are excludable from gross income and not subject to employment taxes (e.g. FICA).	Employees pay no federal, Social Security or (in most states) state taxes on FSA contributions. Employers pay no FICA tax or federal or state unemployment taxes on FSA contributions.	Employer contributions are generally excludable from employee's gross income. Employers receive expense deductions for payments.
<b>Who may contribute to the account?</b>	Either the account holder or the employer, or both.	The employee, employer, or both. The account is <i>usually</i> funded by employees, who choose to set aside a certain amount of their pay in an FSA account.	Solely the employer.

Are funds available to the employee before the account is funded?	No	Yes	It's the option of the employer.
Do unused dollars rollover to the next year?	Yes. Funds may be carried over indefinitely during a participant's lifetime. Upon a participant's death, funds may be passed on to a surviving spouse without federal tax liability.	No. Unused FSA balances are forfeited at the end of the year.	It's the option of the employer. Unused amounts in an HRA may be carried over, subject to any limits set by the employer.
Is substantiation of claims required?	Yes, upon IRS audit (employee responsibility).	Yes (administrator responsibility).	Yes (administrator responsibility).
Can insurance premiums be paid from the account?	Yes.*	No.	Yes.
Does Cobra apply?	No.	Yes.*	Yes.
Does interest accrue on funds deposited in the account?	Yes. Interest accrues tax-free.	No. Interest is not accrued	There is no requirement that interest accrues but employers have discretion to credit interest to the HRA accounts.
Is the account portable(i.e. retained by employee upon termination of employment)?	Yes.	No.	Yes, but <i>only</i> at the discretion of the employer.

\* Special rules apply

*This is intended only to be a summary of general plan features.*