HRAs, HSAs, and Health FSAs – What's the Difference?

Updated October 2019

Health reimbursement arrangements (HRAs), health savings accounts (HSAs) and health care flexible spending accounts (HFSAs) are generally referred to as account-based plans. That is because each participant has his or her own account, at least for bookkeeping purposes. Under the tax rules, amounts may be contributed to these accounts (with certain restrictions) and used for health care on a tax-favored basis.

The Patient Protection and Affordable Care Act (ACA) added new requirements that affect HRAs and HFSAs. HSAs generally are not affected by the ACA.

The 21st Century Cures Act (Cures Act) provided a method for certain small employers to reimburse individual health coverage premiums up to a dollar limit through HRAs called "Qualified Small Employer Health Reimbursement Arrangements" (QSE HRAs). This provision was effective on January 1, 2017.

In June 2019, the Department of the Treasury, Department of Labor, and Department of Health and Human Services issued final rules to expand the use of HRAs by removing the prohibition against integrating an HRA with individual health insurance coverage (individual coverage HRA, or ICHRA) and expanding the definition of limited excepted benefits to recognize certain HRAs as limited excepted benefits if certain conditions are met (excepted benefit HRA, or EBHRA). ICHRAs and EBHRAs will be available starting on January 1, 2020.

The chart below describes the main characteristics of these types of accounts and should help you decide which option is the best for your situation.

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	HFSA	HRA	HSA
Who may legally participate?	Any employee who is also eligible to participate in a group medical plan sponsored by the employer; retired employees are eligible if most participants are active employees.	Any employee who is covered by a group medical plan sponsored by the employer (or if the employer chooses, by the spouse's employer); retired employees are eligible (a retiree-only plan does not have to meet the medical coverage requirement). **QSE HRA** Employees of employers with fewer than 50 full-time employees (under ACA counting methods) who do not offer group health plans. In order for the employee to be eligible for the QSE HRA, the employee must show proof of individual coverage. Reimbursements are tax-free to the employee if the employee has minimum essential coverage for the month in which the expense is incurred. **ICHRA** An employee who has individual coverage (including Marketplace coverage, student health insurance coverage, catastrophic plans, individual health insurance coverage sold through a private exchange model, and grandmothered individual health insurance coverage). To integrate an ICHRA with Medicare, certain conditions must be satisfied. *(continues)*	Any employee who is covered by a high deductible health plan (HDHP), not covered by a plan that is not an HDHP (unless limited purpose or post-deductible), and not covered by any part of Medicare or eligible to be claimed as a tax dependent; individuals who are receiving Medicare may not contribute to an HSA.

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	HFSA	HRA	HSA
Who may legally participate? *(continued)*		**EBHRA** An employee who is offered the traditional group health plan sponsored by the employer.	
May the employer impose additional eligibility requirements?	Yes, the employer may design the plan to cover whom it wishes as long as it meets the non-discrimination requirements.	Yes, the employer may design the plan to cover whom it wishes as long as it meets the non-discrimination requirements. **QSE HRA** Employers must offer the QSE HRA to all similarly situated employees. It is acceptable to provide different reimbursement amounts to different employees within the reimbursement limits, as long as the variance is due to variant prices in the insurance policies in which the individual employees are enrolled. It is not acceptable to provide different reim-bursement amounts to employees based on seniority, employee classifications, job performance, wellness program incentives, or any other type of incentive/reward program. **ICHRA** Employers (who do not offer an ICHRA to all employees) may only offer the ICHRA on different terms to different groups of employees if the groups are one or more of the 11 specifically *(continues)*	An employer may not limit the ability of an eligible employee to contribute to an HSA, but the employer may limit its contributions to employees participating in the HSA designated by the employer.

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	HFSA	HRA	HSA
May the employer impose additional eligibility requirements? *(continued)*		listed classes of employees listed in the regulations. The regulations also provide minimum class sizes for some of the classes. **EBHRA** Employers must make the EBHRA available under the same terms to all similarly situated individuals (as defined by HIPAA's nondiscrimination regulations) regardless of any health factor.	
May an employee contribute to the account?	Yes, up to the lesser of $2,700 (for 2019) or the maximum set by the plan (any carryover does not apply toward the $2,700 cap).	No	Yes, up to the total contribution limit ($3,500 in 2019 for self-only coverage and $7,000 in 2019 for family coverage; $3,550 in 2020 for self-only coverage and $7,100 in 2020 for family coverage); individuals aged 55 or greater may contribute an additional $1,000.
May an employer contribute to the account?	Yes, up to the employee's contribution, or $500, whichever is greater. Non-elective employer contributions (seed money or matching contributions) do not count toward the FSA contribution limit, so long as they are within the employer limits for contributions.	Yes	Yes, up to the total contribution limit described above.
May another person or entity contribute to the account?	No	No	Yes – anyone may contribute to an HSA, up to the total contribution limit.

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	HFSA	HRA	HSA
Does the spouse's coverage matter?	No. However, if one spouse has an HFSA that is not limited use, it will prevent the other spouse from being HSA eligible.	An employer may – but is not required to – integrate the HRA with coverage through the spouse's employer. **QSE HRA** No. The spouse's coverage is not relevant. **ICHRA** No. An ICHRA may not be integrated with other group health plan coverage, such as spousal coverage.	Yes. If the employee is covered by a non-HDHP through the spouse (which may include an HFSA or an HRA), the employee will not be eligible to contribute to an HSA.
Is a formal account required?	No, a notational/ bookkeeping account is allowed.	No, a notational/ bookkeeping account is allowed.	Yes, a trust or custodial account is required. Generally, this is done at a bank or credit union.
Should a Section 125 cafeteria plan be used?	Yes – the HFSA must be part of a Section 125 plan.	No – an HRA may not be part of a Section 125 plan. **ICHRA** Payments for individual coverage off the Marketplace may be made through a cafeteria plan.	An HSA may, but need not be, part of a Section 125 plan. Including in a Section 125 plan will allow the employee to contribute with pre-tax dollars and allow the employer to meet the Section 125 non-discrimination rules instead of the comparable contribution rules.
What health expenses may be reimbursed?	All medical expenses allowed by Code Section 213 (which includes dental and vision expenses), except long-term care services, may be reimbursed. Premiums may not be reimbursed. Medical marijuana purchases may not be reimbursed.	All medical expenses allowed by Code Section 213 (which includes dental and vision expenses), may be reimbursed. Health premiums may be reimbursed for group coverage if not reimbursing (directly or indirectly) employee's pre-tax premium. The cost of premiums for individual policies may not be reimbursed. *(continues)*	All medical expenses allowed by Code Section 213, except premiums (unless for COBRA, long-term care insurance or Medicare supplemental, which may be reimbursed). Medical marijuana purchases may not be reimbursed.

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	HFSA	HRA	HSA
What health expenses may be reimbursed? (*continued)*		Medical marijuana purchases may not be reimbursed. **QSE HRA** Any documented healthcare expenses as defined by Section 213(d) of the IRC. Unlike traditional HRAs, a QSE HRA may reimburse individual premiums. Employees can be reimbursed for individual coverage that they purchase from a broker, or for coverage that they purchase in the Marketplace or on the Exchange. **ICHRA** Any documented healthcare expenses as defined by Section 213(d) of the IRC. Unlike traditional HRAs, an ICHRA may reimburse individual premiums including marketplace coverage, student health insurance coverage, catastrophic plans, individual health insurance coverage sold through a private exchange model, grand-mothered individual health insurance coverage, and Medicare premiums. **EBHRA** Any documented health care expenses as defined by Section 213(d) of the IRC, excepted benefits' premiums, COBRA, short-term limited duration insurance.	

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	HFSA	HRA	HSA
May non-health expenses be reimbursed?	No	No	Yes, but income taxes and a 20% excise tax will apply (20% excise tax will not apply for individuals 65 years or older).
Are limits on reimbursable expenses allowed?	Yes. An employer may exclude specific expenses if it wishes. It also may design the plan to be a “limited purpose” FSA to interface with an HSA option. Limited purpose FSAs typically only reimburse dental, vision and/or preventive care expenses, retiree expenses, or expenses in excess of the IRS high deductible.	Yes. An employer may exclude specific expenses if it wishes. It also may design the plan to be a “limited purpose” HRA to interface with an HSA option. Limited purpose HRAs typically only reimburse dental, vision and/or preventive care expenses, retiree expenses, or expenses in excess of the IRS high deductible. **QSE HRA** In 2019, the reimbursement may not exceed $5,150 annually for single coverage, and $10,450 annually for family coverage. The amount is prorated by month for individuals who are not covered by the arrangement for the entire year. The 2019 monthly limit for single coverage reimbursement is $429. The 2019 monthly limit for family coverage reimbursement is $870. The limits will be updated annually. **ICHRA** An employer must offer an ICHRA on the same terms (both in the same amount and on the same terms and conditions) to all *(continues)*	No

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	HFSA	HRA	HSA
Are limits on reimbursable expenses allowed? *(continued)*		employees within the class. The two exceptions to this “same terms rule” are: (1) HRA participants’ individual coverage premiums may vary by family size; and (2) HRA participants’ premiums may vary by age (although the maximum dollar amount available to the older participants must not be more than three times the maximum amount available to the youngest participants). **EBHRA** Benefits provided must be limited in amount (not to exceed $1,800, indexed for inflation for plan years beginning after December 31, 2020).	
Whose expenses may be reimbursed?	The employee, spouse, children under age 27 and tax dependents, if the expense was incurred during the coverage period.	The employee, spouse, children under age 27 and tax dependents, if the expense was incurred while coverage is in effect. **QSE HRA** A QSE HRA can reimburse employees for premium costs for individual plans. It is unclear at this time whether a QSE HRA can reimburse employees for premium costs for enrollment in a spouse’s or parent’s group health plan. Employers considering this should consult with *(continues)*	The employee, spouse, and tax dependents as defined by IRS Code Sec. 223(d)(2)(A) – even if the person is not eligible to set up their own HSA – if the expense was incurred after the HSA is established.

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	HFSA	HRA	HSA
Whose expenses may be reimbursed? *(continued)*		their attorney. Risk averse employers should prohibit this. **ICHRA** An ICHRA can reimburse employees for individual coverage (including Marketplace coverage, student health insurance coverage, catastrophic plans, individual health insurance coverage sold through a private exchange model, and grandmothered individual health insurance coverage). An ICHRA that is integrated with Medicare may reimburse premiums for Medicare Part A, B, C, or D, Medigap policies, and other Section 213(d) medical care expenses (subject to the Medicare Secondary Payer rules). An ICHRA may not reimburse a spouse's coverage.	
How are expenses reimbursed?	Employee submits substantiated expense to claims administrator. May be paper or debit card.	Employee submits substantiated expense to claims administrator. May be paper or debit card.	Employee pays expense from HSA. May be paper or debit card. Employee is responsible for maintaining record to substantiate expense.
May expenses be reimbursed after employment terminates?	COBRA may be elected, generally until the end of the plan year in which termination occurred.	COBRA may be elected. Employer may design plan to allow reimbursement after termination, but employee must be given option to decline that extended coverage. **QSE HRA** QSE HRAs are not subject to COBRA.	Yes

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	HFSA	HRA	HSA
May unused contributions be carried over from year to year?	Generally, no; however, plan may be designed to allow carryover of up to $500 into next year or a grace period to incur claims attributable to prior year for up to 2-1/2 months.	Yes, if plan allows. **QSE HRA** The 21st Century Cures Act does not discuss any carryover or grace period for QSE HRAs. **ICHRA** Yes, an employer can allow carryover of unused ICHRA amounts. **EBHRA** An EBHRA can have a rollover feature of unused EBHRA amounts.	Yes (the account is the individual's).
May an employee access funds before they have been contributed?	Yes – under the HFSA rules the employee must have access to the full planned contribution for the year on the first day of the coverage period.	Not required, but plan may be written to allow full access at start of year. **QSE HRA** The 21st Century Act does not discuss employee access to funds before they have been contributed.	Generally, no, although in certain situations the employer may advance contributions.
May planned contributions be changed mid-year?	Generally, no. An employee may make a mid-year change only if allowed under the Section 125 change in status rules.	Yes (may require plan amendment and participant communications).	Yes – even if employee is contributing to the HSA through a Section 125 plan.
Do nondiscrimination rules apply?	Yes, the Section 125 and Section 105(h) rules apply.	Yes, the Section 105(h) rules apply. For both the ICHRA and EBHRA, additional nondiscrimination rules apply to the HRA plan design.	Yes, either the Section 125 or the comparability rules apply.

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	HFSA	HRA	HSA
May an employee participate in multiple accounts?	May participate in an HSA if HFSA is limited purpose or if the HFSA is post-deductible. May participate in an HRA so long as the plan is set up to ensure if the HRA pays first, the HFSA will not pay until the HRA is exhausted, and if the HFSA pays first, the HRA will not pay until the HFSA is exhausted. **QSE HRA** To offer a QSE HRA, an employer cannot offer group health coverage to any employee. To the extent that an employer must offer group health plan coverage for the HFSA to meet the requirements of an excepted benefit, the employer cannot also offer a QSE HRA.	May participate in an HSA if HRA is limited purpose; or if the HRA is post-deductible. May participate in an HFSA so long as the plan is set up to ensure if the HRA pays first, the HFSA will not pay until the HRA is exhausted, and if the HFSA pays first, the HRA will not pay until the HFSA is exhausted. **QSE HRA** A QSE HRA is likely disqualifying coverage for determining HSA eligibility. This means that if an employee purchases an HSA-qualifying high-deductible health plan on the Marketplace, the QSE HRA could disqualify the HSA component. **ICHRA** An ICHRA can be structured so that it will not disqualify a person from making HSA contributions. However, if the ICHRA reimburses out-of-pocket medical expenses (beyond dental and vision) before the person has met the HDHP minimum annual deductible, then the ICHRA would be HSA-disqualifying coverage.	Could also participate in a limited purpose HFSA or HRA, or in HFSAs or HRAs that are post-deductible. **QSE HRA** The QSE HRA could be considered disqualifying coverage for HSA eligibility.

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	HFSA	HRA	HSA
Are a plan document and SPD required?	Yes (unless a government or church plan).	Yes (unless a government or church plan). **QSE HRA** A QSE HRA is excluded from the ERISA Title I, Part 7 group health plan definition. The rest of ERISA may apply to QSE HRAs, although this issue remains undetermined by an administrative agency or court.	Not for HSA; will need for related HDHP.
Is a 5500 required?	If 100+ participants in the HFSA unless a government or church plan.	If 100+ participants in the HRA unless a government or church plan. **QSE HRA** A QSE HRA is excluded from the ERISA Title I, Part 7 group health plan definition. The rest of ERISA may apply to QSE HRAs, although this issue remains undetermined by an administrative agency or court.	No
Is W-2 reporting required?	No, provided the HFSA is an "excepted benefit."	No (reporting is currently optional). **QSE HRA** Employers sponsoring QSE HRAs must report money provided through a QSE HRA on an employee's W-2 under the aggregate cost of employer-sponsored coverage. It is unclear if the existing safe harbor on reporting the aggregate cost of employer-sponsored coverage for employers with fewer than 250 W-2s would apply, as arguably many of the small *(continues)*	Employer contributions, including amounts the employee elected to contribute using a Section 125 plan, are reported in Box 12 with code W; do not include in "cost of coverage" reporting under code DD.

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	HFSA	HRA	HSA
Is W-2 reporting required? *(continued)*		employers eligible to offer QSE HRAs would have fewer than 250 W-2s.	
Does the PCORI fee apply?	Not if an excepted benefit (if owed, fee is only due on employees, not dependents).	Yes, if HRA is the only self-funded plan using that plan year (fee is only due on employees, not dependents).	No
Does the health insurance provider fee apply?	No	No	No
Does the TRF apply?	No	No	No
Do contributions apply to Cadillac tax?	Yes (both employer and employee).	Yes	Yes (employer; probably employee if made through a Section 125 plan).
Do contributions apply toward minimum value determinations?	No	Yes, if may only be used for cost-sharing (deductible, coinsurance, copays). **QSE HRA** Even if an employee with a QSE HRA receives a subsidy, the employer is not at risk for penalties because employers with fewer than 50 full-time and full-time equivalents are not obligated to provide coverage under the ACA.	Yes
Do employer contributions apply to affordability determinations? *(continues)*	No	Yes, if may be used for premiums and/or cost-sharing. **QSE HRA** An employee who is provided a QSE HRA is not eligible for a premium tax credit if the QSE HRA is "affordable." Affordability will be determined by calculating the "net cost of coverage" to the *(continues)*	No

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	HFSA	HRA	HSA
Do employer contributions apply to affordability determinations? *(continued)*		employee. Net cost of coverage is the amount an employee would pay for self-only coverage under the second lowest cost silver plan offered in the Marketplace minus the reimburse-ment from the QSE HRA. If the net cost of coverage is less than 9.86% of household income, coverage is affordable for 2019 (9.78% for 2020). If it is more costly, the coverage is unaffordable. **ICHRA** An employee who is provided with an ICHRA is not eligible for a premium tax credit if the ICHRA is affordable and minimum value. Under the ICHRA final rules, an ICHRA that is affordable is treated as providing minimum value. Affordability will be determined by calculating the "net cost of coverage" to the employee. Net cost of coverage is the amount an employee would pay for self-only coverage under the lowest cost silver plan offered in the Marketplace minus the reimbursement from the ICHRA. If the net cost of coverage is less than 9.86 percent of household income, coverage is affordable for 2019 (9.78 percent for 2020). If it is more costly, the coverage is unaffordable. *(cont'd))*	

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	HFSA	HRA	HSA
Do employer contributions apply to affordability determinations? *(continued)*		An applicable large employer can use the following affordability safe harbors: • Look-back month safe harbor • Location safe harbor • General affordability safe harbors: Form W-2, rate of pay, and federal poverty line	
Qualifies as "minimum essential coverage"?	No	Yes (if provides any medical benefits). **QSE HRA** No. However, even if an employee with a QSE HRA receives a subsidy, the employer is not at risk for penalties because employers with fewer than 50 full-time and full-time equivalents are not obligated to provide coverage under the ACA.	No
Do HIPAA privacy requirements apply?	Yes	Yes **QSE HRA** A QSE HRA is a "covered entity" under HIPAA, subject to the privacy and security rules. However, to the extent that the QSE HRA has fewer than 50 participants and is self-administered, the eligible employer will not be subject to HIPAA's privacy and security rules regarding the QSE HRA.	Not to HSA; may apply to related HDHP.

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	HFSA	HRA	HSA
Is a Medicare Part D notice required?	No	Yes, unless integrated with the Rx coverage. **QSE HRA** No. QSE HRAs are not considered group health plans; further, to be eligible to offer a QSE HRA, an employer must not offer a group health plan to any of its employees. The Medicare Part D notice requirements apply to all group health plan sponsors who provide prescription drugs coverage.	Not for HSA; will need for related HDHP.

Notes:

- To qualify as an excepted benefit, an HFSA must be offered in conjunction with a group medical plan and the employer's contribution cannot exceed two times the employee's pre-tax contribution to the HFSA plus $500.
- Beginning in 2014, HRAs must be available only to individuals actually covered by the group medical plan (or the spouse's group medical plan if the plan provides) (ACA integration requirement). Participants must be given the option to decline further HRA reimbursement annually and when their employment terminates.

  However, starting on January 1, 2020, employers can offer an individual coverage HRA (ICHRA) that would be an exception to the ACA's integration requirement.

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