

Comparison of HSAs, Health FSAs and HRAs

There are three basic types of medical savings accounts: health savings accounts (HSAs), health flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs). Although these accounts all provide a tax-advantaged way for employees to pay out-of-pocket medical expenses, each type of account is subject to its own set of requirements. Each account also has its own set of advantages for both the employer and employees.

The following chart compares key features of HSAs, health FSAs and HRAs. Employers can use this chart to help determine which type of medical savings account best fits their workforce's needs.

General Rules

Contributions

Spending Rules

Additional Compliance



GENERAL RULES

	HSA	Health FSA	HRA*
What type of account is it?	Individually owned account set up with an HSA trustee or custodian.	Employer-sponsored, self-funded health plan.	Employer-sponsored, self-funded health plan.
Who owns the account?	Individual.	Employer.	Employer.
What type of group health plan must be offered with the account?	A high deductible health plan (HDHP) that satisfies minimum annual deductible and maximum out-of-pocket expense requirements.	Any group health plan.	Any group health plan.
Which employers is it best for?	Employers that are comfortable offering HDHPs. Because HSAs are individually owned accounts, they require the least amount of employer involvement.	Employers that want to give employees the opportunity to save for their own medical expenses on a tax-free basis, even if they are not enrolled in an HDHP. As employer-sponsored health plans, health FSAs require more employer involvement.	Employers that would like to help employees pay their out-of-pocket medical expenses on a tax-free basis. As employer-sponsored health plans, HRAs require more employer involvement.
Which employees can be eligible?	To be eligible for HSA contributions, an employee must be: <ul style="list-style-type: none"> • Covered under an HDHP; • Not be covered by other health coverage (with limited exceptions) • Not be enrolled in Medicare; and • Not be eligible to be claimed as a tax dependent. 	Employees who are eligible to participate in the employer's group health plan can be eligible for the health FSA. Employers can impose additional eligibility requirements, subject to applicable nondiscrimination rules under Internal Revenue Code (Code) Sections 105(h) and 125.	An HRA can only reimburse the medical expenses of employees and dependents who are enrolled in the non-HRA group health plan coverage. Employers can impose additional eligibility requirements, subject to applicable nondiscrimination rules under Code Section 105(h).
Can employees be covered under another type of account?	Individuals who are covered by health FSAs and HRAs are not eligible for HSA contributions. However, there are special types of health FSA and HRA designs that preserve HSA eligibility, such as health FSAs/HRAs that only reimburse vision and dental expenses or health FSAs/HRAs that only reimburse medical expenses incurred after the minimum HDHP deductible has been reached.	An employee who is covered by an HRA may also participate in a health FSA. However, a health FSA cannot reimburse medical expenses that have been reimbursed by the HRA.	An employee who is covered by a health FSA may also participate in an HRA. However, an HRA cannot reimburse medical expenses that have been reimbursed by the health FSA.
Who can fund the account?	Anyone can make contributions to an individual's HSA, including the HSA owner and their employer. Employers may allow employees to make pre-tax contributions through a Section 125 cafeteria plan.	Typically funded with employee pre-tax contributions through a Section 125 cafeteria plan. Employers may also contribute.	Only employers may contribute. Employee contributions are not allowed.
What happens to the account when an employee terminates employment?	HSAs are nonforfeitable and portable, which means the employee keeps their HSA account upon termination of employment.	The account is forfeited unless COBRA applies.	The account is forfeited unless it includes a spend-down feature. COBRA may also apply.
Can unused funds be rolled over to the next year?	Yes. There is no deadline for using HSA funds.	No, with two limited exceptions. A health FSA may include a grace period of 2.5 months after the end of the plan year. Alternatively, a health FSA may allow employees to carry over up to \$500 (as adjusted for inflation) in unused funds into the next plan year. The carryover limit for plan years beginning in 2024 is \$640.	Yes, as a plan design option, HRAs may permit unused amounts to be carried over to subsequent years.

CONTRIBUTIONS

	HSA	Health FSA	HRA*
Can the account be funded with pre-tax contributions (through a Section 125 cafeteria plan)?	Yes.	Yes.	No.
Is there an annual contribution limit for employees?	Yes. For 2024, the contribution limit is \$4,150 for individuals with self-only coverage and \$8,300 for individuals with family coverage. For 2025, these limits increase to \$4,300 and \$8,550, respectively. Individuals aged 55 or older by the end of the year can increase their contribution limit up to \$1,000 per year as a catch-up contribution.	Yes. For plan years beginning in 2024, an employee's pre-tax contributions may not exceed \$3,200 for the year. Employers may impose lower limits on employee health FSA contributions.	Employee contributions are not allowed.
Is there an annual contribution limit for employers?	The contribution limit applies to all money contributed to an HSA by (or on behalf of) an employee, regardless of the source. For 2024, the contribution limit is \$4,150 for individuals with self-only coverage and \$8,300 for individuals with family coverage (\$4,300 and \$8,550 respectively, for 2025). An additional \$1,000 catch-up contribution is available for eligible individuals.	If an employer makes contributions, they must be limited to the greater of: <ul style="list-style-type: none"> • Two times the participant's salary reduction election under the health FSA for the year; or • The amount of the participant's salary reduction election for the health FSA for the year, plus \$500. 	No. There is no limit required by law. Employers can decide how much to contribute each year.
Can employees change their pre-tax contributions at any time?	Yes, an employee who elects to make pre-tax HSA contributions may change the amount of the contributions (or start or stop contributions) at any time during the plan year if the change is effective prospectively.	In general, employees cannot make changes to their pre-tax health FSA contributions during the plan year. However, as a plan design option, health FSA participants may be allowed to change their contributions for the remaining portion of a year on account of and consistent with certain midyear election events recognized by the IRS.	N/A; employee contributions are not allowed.

SPENDING RULES

	HSA	Health FSA	HRA*
Are employer contributions subject to nondiscrimination testing?	Yes. If employees can make pre-tax HSA contributions, the employer's contributions are subject to the nondiscrimination tests for Section 125 cafeteria plans. If an employer does not allow employees to make pre-tax HSA contributions, the employer's contributions are subject to the comparability rules under Code Section 4980G.	Yes. As a self-insured health plan, employer health FSA contributions are subject to nondiscrimination testing under Code Section 105(h). The Section 125 nondiscrimination rules also apply.	Yes. As a self-insured plan, employer HRA contributions are subject to nondiscrimination testing under Code Section 105(h).
What types of medical expenses can be reimbursed?	<p>HSAs can pay otherwise unreimbursed medical care expenses (as defined in Code Section 213(d)) of the account owner, spouse and tax dependents on a tax-free basis. The expenses must have been incurred after the HSA was established.</p> <p>HSAs cannot reimburse insurance premiums, with exceptions for COBRA coverage, long-term care coverage, health coverage while receiving unemployment benefits and any health coverage if Medicare eligible due to age, except Medicare supplemental policies.</p>	<p>Health FSAs can pay otherwise unreimbursed Code Section 213(d) medical expenses of the employee, spouse, children up to age 26 and tax dependents that were incurred during the coverage period, subject to any employer limitations.</p> <p>Health FSAs cannot reimburse insurance premiums, without exceptions.</p>	<p>HRAs can pay otherwise unreimbursed Code Section 213(d) medical expenses of the employee, spouse, children up to age 26 and tax dependents that were incurred during the coverage period, subject to any employer limitations.</p> <p>HRAs can reimburse some types of insurance premiums for medical care and long-term care coverage, subject to any employer limitations. HRAs cannot reimburse individual health insurance premiums.</p>
Must claims be substantiated by the employer (or a third party) before they are reimbursed?	No, the HSA owner is solely responsible for maintaining records that substantiate the medical expense.	Yes.	Yes.
Can the account be used for nonmedical expenses or cashed out?	Yes, but amounts that are withdrawn for nonmedical expenses are taxed as income and subject to a 20% tax penalty. The tax penalty does not apply if the HSA owner is over age 65, disabled or deceased.	No.	No.
Does the uniform coverage rule apply?	No.	Yes. Once the plan year begins, an employee's maximum amount of reimbursement must be available at any time during the coverage period (reduced only for any prior reimbursements during the same coverage period), even if reimbursement would exceed the year-to-date contributions to the employee's health FSA.	No.

ADDITIONAL COMPLIANCE

	HSA	Health FSA	HRA*
Is the account subject to ERISA?	No.	Yes, unless the employer is a governmental entity or church. Being subject to ERISA means that certain fiduciary duty and claims procedure rules apply. It also means the employer must adopt a plan document, and participants must receive a summary plan description (SPD).	Yes, unless the employer is a governmental entity or church. Being subject to ERISA means that certain fiduciary duty and claims procedure rules apply. It also means the employer must adopt a plan document, and participants must receive an SPD.
Does COBRA apply?	No.	Yes, if the employer has at least 20 employees. However, under a special rule for health FSAs, an employer: <ul style="list-style-type: none"> • Is not required to offer COBRA coverage to qualified beneficiaries who have “overspent” their health FSA accounts; and • Must offer COBRA coverage to qualified beneficiaries who have “underspent” their health FSA accounts, but the COBRA coverage may terminate at the end of the year in which the qualifying event occurs. 	Yes, if the employer has at least 20 employees.
Is a Form 5500 required?	No.	Yes, unless the plan is unfunded and has fewer than 100 participants.	Yes, unless the plan is unfunded and has fewer than 100 participants.
Do HIPAA’s Privacy and Security Rules apply?	No.	Yes, unless the plan has fewer than 50 participants and is self-administered.	Yes, unless the plan has fewer than 50 participants and is self-administered.

**For purposes of this comparison chart, an HRA refers to a traditional HRA. It does not include special types of HRAs, such as retiree-only HRAs, individual coverage HRAs (ICHRAs), qualified small employer HRAs (QSEHRAs) or excepted benefit HRAs. For more information on these types of HRAs, please contact Parrott Benefit Group.*

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