

	Health Reimbursement Arrangements (HRA)	Health Savings Accounts (HSA)	Flexible Spending Accounts (FSA)
Applicable IRS Law	IRC Section 106(c)(2)	IRC Section 223, P.L. 108-173	IRC Section 125
Account Overview	An employer funded account used to reimburse employees for qualified medical expenses.	Tax-exempt trust or custodial account created to pay for qualified medical expenses of the account holder and his/her spouse/dependents.	A cafeteria plan created to reimburse qualified medical expenses, health insurance premiums for premium-only accounts, or dependent care expenses.
Qualified Medical Expenses	As defined in Section 213(d) of the IRC, including health insurance premiums	As defined in Section 213(d) of the IRC, except for health insurance premiums.	Same as for HSAs.
Eligibility	An employee whose employer offers an HRA, regardless of the number of employees and to COBRA qualified beneficiaries. Not to self-employed. HRAs are not available to partners in a partnership, shareholders and spouses who own more than 2% stock in a Sub S Corp, and members of an LLC.	Individuals and families covered by a qualified high deductible health insurance plan.	An employee whose employer offers an FSA option. Employers may also create a Dependent Care Account for qualifying dependents.
Funding	Employer only (self-employed individuals precluded).	Individual and/or an employer.	Typically funded by an employee.
Health Plan Requirements	No corresponding health plan requirement.	Qualified high deductible health insurance plan with a minimum of (for 2006) \$1,050 deductible for single and \$2,100 for anything other than single. Maximum out of pocket limits for 2006 are \$5,250 for single, \$10,500 for family.	No corresponding health plan requirement.

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Contributions	Only the employer may contribute to an HRA. There are no limits to the amount.	Account holders or the employer or both may contribute. A maximum of 100% of the deductible may be contributed.	An employee, employer or both may contribute to an FSA. There are no limits to contributions, however, employers typically set the limit. The maximum annual contribution for Dependent Care Accounts is \$5,000 for individuals with dependents or for individuals filing taxes jointly.
Employer obligated to ensure expenses are qualified	Yes	No, individual is responsible.	Yes
Portability	At the discretion of the employer.	Yes. Once money is deposited, it is owned by the account holder.	No. Employees also forfeit unused balances.
Carryover	At the discretion of the employer.	Funds may be carried over indefinitely throughout an account holder's lifetime. Upon death, an account may be passed on to a surviving spouse without federal tax liability.	No. Employees also forfeit unused balances.
Tax Status	Employer contributions are generally excludable from an employee's gross income. In an arrangement where an employer distributes unused HRA funds at termination either as a death benefit or as part of severance, the funds will not qualify as an expense deduction.	Employee contributions are tax deductible and employer contributions are excludable from gross income and not subject to employment taxes.	Employees are not subject to Federal, Social Security, or in most states, state taxes on contributions to an FSA. Employers are not subject to FICA or unemployment taxes on FSA contributions.
Withdrawals	Withdrawals for non-medical expenses are not permitted.	Funds not used to pay for qualified medical expenses may be withdrawn but are subject to an additional 10% tax penalty except when an individual is 65 or older, disabled or has died during the year.	Withdrawals for non-medical expenses are not permitted.

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Interest	No requirement exists, however, employers have discretion to credit interest to HRA accounts.	Interest accrues without a tax penalty.	Interest does not accrue for FSA funds.
Health Insurance Premium Payment	Generally, funds from an HRA can be used to pay health premiums under: the employee's health plan, or retiree health plan, a spouse's health plan, for COBRA continuation, and for a qualified long term care plan.	HSA funds may be used to pay health insurance premiums when an individual receives unemployment insurance, while an individual receives COBRA continuation, when an individual reaches age 65 for any health insurance except Medicare supplemental policies, and for long term care premiums.	A separate premium only FSA may be created to pay an employee's contribution toward the monthly cost of premiums. Under a salary reduction arrangement, the employee agrees to contribute a portion of salary on a pre-tax basis to pay for qualified benefits. Long term care is specifically excluded under the IRS code.
Subject to COBRA	Yes	No	Yes, in limited circumstances.
Discrimination	IRC Section 105(h) and HIPAA	Comparability rules for contributions (same amount or percentage for all employees with comparable coverage).	IRC Section 125
Penalty for Discrimination	Section 105(h) and HIPAA Penalties	35% excise tax on employer's aggregate HSA contributions.	IRC Section 125
Concurrent Health Coverage	Yes	Only own High Deductible Health Plan, Dental, Vision, LTC	Yes