



Flex, HRA and HSA Comparison 2006

The chart below is a brief comparison of the various components of each of these important health care options.

Description	Flexible Benefit Plan / Health Care Spending Account	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
History	IRS Code 125 Passed in 1978	IRS Code 105(h) Passed in 2002	IRS Code 223 Passed in 2003
Eligible Persons	Employee, Spouse & Dependents	Employee, Former Employee, Spouse & Dependents	Non-Medicare Enrolled Persons, Business Owners, Spouse & Dependents
Excluded Persons	S-Corp, LLC, LLP, Partnership Owners & their Spouses Sole Proprietors (employee-spouse may be eligible) Non-Dependent Domestic Partners Can exclude part-time, temporary, seasonal and union employees, and non-resident aliens.	S-Corp, LLC, LLP, Partnership Owners & their Spouses Sole Proprietors (employee-spouse may be eligible) Non-Dependent Domestic Partners (special rules) Can exclude part-time, temporary, seasonal and union employees, and non-resident aliens.	Excludes Medicare enrolled persons (cannot fund HSA but can continue to claim money already set aside in the HSA Trust Account) Non-Dependent Domestic Partners
Eligible Medical Expenses	All Eligible Code 213 Medical Expenses	All Eligible Code 213 Medical Expenses / includes health-related premiums and long term care insurance premiums (EXCLUDES long term care services)	All Eligible Code 213 Medical Expenses / excludes most premiums (INCLUDES long term care premiums & services)

Description	Flexible Benefit Plan / Health care Spending Account	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
Eligible Premiums	Cannot reimburse any Health Related Premiums from the Health Care Spending Account	Can reimburse all Health Related Premiums; and INCLUDES Long Term Care Insurance premiums	EXCLUDES most Health Related Premiums INCLUDES Long Term Care Insurance and certain health insurance premiums while unemployed
Who Sets the Rules	Employer designs Plan No special insurance coverage required	Employer designs Plan No special insurance coverage required	IRS mandates HSA must be offered with a HDHP and cannot have other insurance coverage (except as allowed)
Allowed Insurance	All Insurances - No conflicts	All Insurances - No conflicts Cannot offer HRA with HSA – unless HRA is a limited-use or above deductible plan design	Must own HDHP – min. \$1,100 single; \$2,200 family deductible Can also own: Long Term Care Insurance, Dental, Vision, Accident, Specific Illness, Hospital Income & Critical Illness
Who Can Fund the Plan	Employer and/or Employee	Employer only	Individual, Employer and/or Employee
Funding Requirements	No Pre-Funding Required	No Pre-Funding Required	Must be funded into a Trust Account – Limited to federal limit each tax year – \$2,850 for single and \$5,650 for family; 55 years and older can add \$800 more per year (2007 limits shown)
Can the Plan be Funded with Salary Reduction	Yes	No	Yes – If included in Flex Document – Employer & Employee contributions displayed on W-2 Form
How are the Dollars Paid	Available anytime during the Plan Year	Available anytime or as earned (accrual) - based on Plan Design	Paid from HSA Trust Account as dollars are available in the Trust Account
Third-Party Claims Adjudication	Always required – Some Electronic Adjudication allowed with Debit Card	Always required – Some Electronic Adjudication allowed with Debit Card	Self- Adjudication only – subject to IRS audit

Description	Flexible Benefit Plan / Health care Spending Account	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
Can Dollars be Carried Forward	No – Unused dollars are retained by the Employer – 2 ½ grace period carry forward may apply	Carry forward can be allowed based on Plan design	Carry forward always allowed – Dollars belong to the Account Holder
Can Dollars be Used for Other than Medical	No	No	Yes, Prior to age 65 10% penalty and taxes; After age 65 taxation only
Can Dollars be paid out in Future Years	No	Yes – Based on Plan design	Yes – Belongs to the Account Holder
Is COBRA Required	Yes – Generally only when positive balance in the Health Care Spending Account at termination (exceptions do apply)	Yes if COBRA applies (Colorado State continuation for small employers does not apply)	No – HSA Trust Account dollars owned by Account Holder However, HDHP will be COBRA eligible when a group health plan
Are There Discrimination Rules	Yes – Nine tests in all, most based on Plan Design / others based on pre-tax dollars paid	Yes – Must be non-discriminatory in design; not in utilization	Yes – If employer contribution made, must be comparable for similar persons (example single vs. family coverage) If salary reduction must be tested with Flex dollars
ERISA 5500 Forms	5500 Form required for groups with 100 or more Health Care Spending Account Participants	5500 Form required for groups with 100 or more Participants	May apply if there are Employer contributions – not currently clear
ERISA SPD Required	Required	Required	May apply if there are employer contributions / However, with claims self-adjudicated and self-reported, ERISA should not apply to claims procedures
Portability of Funds	No	No	Yes
Catch Up Funding Allowed	No	No	Age 55 and older can add \$800 per year 2007, indexed thereafter

Definitions:

Flex:	Flexible Benefit Plan
HRA:	Health Reimbursement Arrangement
HSA:	Health Savings Account
HDHP:	High Deductible Health Plan
Health Insurance:	Health, Dental, Vision, Supplemental Health
SPD:	Summary Plan Description

Features of the Various Programs

Flexible Benefit Plans:

- Can be used in conjunction with any existing insurance plan and/ or benefit package
- Allows employees to fund health premiums, medical expenses and dependent care with 100% tax-free dollars
- Tax-free dollars for employer and employee (both save on FICA and Medicare)
- Allows flexibility and diversity within the benefit package
- Allows equalization of benefits to employees with use of “Benefit Dollars”
- Employer has control of design and sets the plan design limits
- No funding required – however, must pay full employee elected amount whether or not the employee has currently funded the amount of the claim (not true with Dependent Care Spending Account)

Health Reimbursement Arrangements:

- Can be used in conjunction with any existing insurance plan and/ or benefit package
- Always employer dollars only – employer sets the plan design limits
- Tax-free dollars paid by employer to participant for medical expenses and/or health premiums (includes supplemental health products)
- Can limit availability based on plan design, can limit what employer will pay from HRA Plan (Example – only the portion of insurance-approved deductible / excludes all other expenses)
- No pre-funding required
- Can choose to pay as accrued or in-full to employees
- Can offer carry-forward of funds and cap aggregate amount allowed
- Can choose not to have a carry forward
- Can pay-out in retirement or not allow a spend down period

Health Savings Accounts:

- Must offer High Deductible Health Plan (as defined by IRS)
- Employer can fund Health Savings Trust Account – or not
- Employer can allow funds to be deposited to the HSA Trust Account through salary reduction (Flex Plan) thereby, both the employer and employee save on FICA & Medicare contributions
- Account Holder always owns the HSA Trust Account
- Health Savings Account is fully portable

To Request a Consultation on the Best Option for your Company: Contact FlexMagic Consulting, Inc.
Corporate Office * 6450 S Quebec St #5-28, Centennial, CO 80111 * 303-649-1922 / 800-888-9084 * www.flexmagic.com
Western Regional Office * PO Box 1047, 817 Colorado Ave #106, Glenwood Springs, CO 81602 * 970-384-1900 / 800-613-4021