



Flex, HRA and HSA Comparison 2011 & 2012

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; Children to age 26	Employee, Former Employee, Spouse & Dependents; Children to age 26	Non-Medicare Enrolled Persons, Business Owners, Individuals, Spouse & Dependents
Excluded Persons	<p>More than 2% S-Corp, LLC, LLP, Partnership owners and their spouses, parents and children</p> <p>Sole Proprietors (employee-spouse may be eligible)</p> <p>Non-Dependent Domestic Partners</p> <p>Can exclude part-time, temporary, seasonal and union employees, and non-resident aliens.</p>	<p>More than 2% S-Corp, LLC, LLP, Partnership owners and their spouses, parents and children</p> <p>Sole Proprietors (employee-spouse may be eligible)</p> <p>Non-Dependent Domestic Partners (special rules)</p> <p>Can exclude part-time, temporary, seasonal and union employees, and non-resident aliens.</p>	<p>Excludes Medicare enrolled persons (cannot fund HSA but can continue to claim money already set aside in the HSA Trust Account)</p> <p>Non-Dependent Domestic Partners</p>
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 & long term care 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 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 HSA participant cannot have any other health 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. \$1,200 single; \$2,400 family deductible (2011 & 2012) 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 – \$3,050 for single and \$6,150 for family (2011) \$3,100 and \$6,250 (2012); 55 years and older can add \$1,000 more per year
Can the Plan be Funded with Salary Reduction	Yes	No – Is always only Employer dollars	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 (accrued) - based on Plan Design	Paid from HSA Trust Account as dollars are available in the Trust Account

Description	Flexible Benefit Plan / Health Care Spending Account	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
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
Can Dollars be Carried Forward	No – Unused dollars are retained by the Employer – 2 ½ month 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 20% penalty (2011) and taxes will apply; After age 65 taxed as ordinary income
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 – Several 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 is made, it must be comparable for all similar persons (example single vs. family coverage) If salary reduction is offered HSA contributions 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

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 limits
- No funding required – however, must pay full employee elected Health Care Spending Account 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
- 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 to pay up to the limit anytime during the Plan Year
- 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.
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