

# Health Savings Accounts (HSA)

How they compare to Flexible Spending Accounts (FSA) and Health Reimbursement Arrangements (HRA).

	<b>Health Savings Accounts (HSA)</b>	<b>Flexible Spending Accounts (FSA)</b>	<b>Health Reimbursement Arrangements (HRA)</b>
<b>General Description</b>	<ul style="list-style-type: none"> <li>Trust or custodial account used to accumulate funds on a tax-preferred basis to pay for certain medical expenses under Code section 213(d), as described below.</li> <li>Available to individuals covered by a high deductible health plan and no other health plan that is not a high deductible health plan, except for certain "permitted" insurance or coverage.</li> <li>Contributions may be made by an employer, eligible individual, or both.</li> <li>An HSA may be offered through a cafeteria plan.</li> </ul>	<ul style="list-style-type: none"> <li>Employer-sponsored benefit program under which employees receive reimbursement for certain medical expenses under Code section 213(d), as described below.</li> <li>Generally offered as part of an employer's cafeteria plan, but not in conjunction with any other insurance policy.</li> <li>Contributions typically made by employees through salary reduction.</li> </ul>	<ul style="list-style-type: none"> <li>Employer-sponsored benefit program under which employees may receive reimbursement for medical expenses under Code section 213(d), as described below.</li> <li>May be offered in conjunction with a high deductible or other type of health plan, but this is not required.</li> <li>Contributions must be solely from the employer.</li> </ul>
<b>Expenses Eligible for Tax-Free Reimbursement</b>	<ul style="list-style-type: none"> <li>Amounts distributed for medical expenses (generally defined under Code section 213(d)<sup>2</sup>) incurred by the account holder and the account holder's spouse or dependents are excludable from income, except for amounts distributed to pay health insurance premiums.</li> <li>However, distributions for expenses of the following types of health insurance premiums are excludable from income: (i) retiree health insurance premiums (other than Medicare supplemental policies) for individuals who have reached Medicare eligibility, (ii) premiums for COBRA coverage, (iii) premiums for a qualified long-term care insurance contract, or (iv) premiums for a health plan during a period in which an individual is receiving unemployment compensation.</li> </ul>	<ul style="list-style-type: none"> <li>Amounts may be distributed to reimburse an employee for medical expenses (generally defined under Code section 213(d)) incurred by the employee and the employee's spouse or dependents, except for: (i) expenses for any type of health insurance premiums and, (ii) expenses for long-term care services.</li> </ul>	<ul style="list-style-type: none"> <li>Amounts may be distributed to reimburse an employee for medical expenses (generally defined under Code section 213(d)) incurred by the employee and the employee's spouse or dependents, except for expenses for qualified long-term care services. (Note that premiums for qualified long-term care insurance are reimbursable.)</li> </ul>
<b>Distributions For Non-Medical Expenses</b>	<ul style="list-style-type: none"> <li>Distributions that are not used for medical expenses are includible in income and subject to a 10 percent additional tax.</li> <li>The 10 percent additional tax does not apply to amounts distributed in the event of death, disability, or after an individual reaches Medicare eligibility.</li> <li>If amounts that would otherwise be taxable HSA distributions are rolled over into another HSA within 60 days, there is no tax consequence associated with the distribution (so long as there has been no other such rollovers in the last 12 months).</li> </ul>	<ul style="list-style-type: none"> <li>Distributions may not be made for non-medical expenses.</li> </ul>	<ul style="list-style-type: none"> <li>Distributions may not be made for non-medical expenses.</li> </ul>

**Eligibility**

<b>Health Savings Accounts (HSA)</b>	<b>Flexible Spending Accounts (FSA)</b>	<b>Health Reimbursement Arrangements (HRA)</b>
<ul style="list-style-type: none"><li>• An individual (or spouse) who is covered by a high deductible health plan and no other non-high deductible health plan that provides benefits covered under the high deductible plan, unless the non-high deductible health plan provides coverage for accidents, disability, dental care, vision care, long-term care or other types of "permitted insurance," as defined below.</li><li>• A high deductible health plan is a health plan that has an annual deductible of not less than \$1,000 for self-only coverage, and \$2,000 for family coverage, with a cap on out-of-pocket expenses (including the deductible) of \$5,100 self and \$10,200 family (all indexed for inflation in \$50 increments), with the following exceptions related to preventive care and out-of-network expenses.</li><li>• Preventive Care: a plan shall not fail to be treated as a high deductible health plan by reason of failing to have a deductible for preventive care.</li><li>• Network plans: a plan shall not fail to be treated as a high deductible health plan by reason of having an out-of-pocket limitation for services provided outside of such network which exceeds the applicable limitations. In addition, such plan's annual deductible for services provided outside of the network is not taken into account in determining the annual contribution limit.</li><li>• "Permitted Insurance" is defined as: (A) insurance if substantially all of the coverage provided under such insurance relates to (i) liabilities incurred under workers' compensation laws, (ii) tort liabilities, (iii) liabilities relating to ownership or use of property, or (iv) such other similar liabilities as the Secretary may specify by regulations, (B) insurance for a specified disease or illness, and (C) insurance paying a fixed amount per day (or other period) of hospitalization.</li><li>• Individuals who are entitled to benefits under Medicare are not eligible to make contributions.</li></ul>	<ul style="list-style-type: none"><li>• An employee who satisfies the eligibility criteria of the employer and who has made an election under the employer's cafeteria plan.</li></ul>	<ul style="list-style-type: none"><li>• An employee who satisfies the eligibility criteria of the employer.</li></ul>

	<b>Health Savings Accounts (HSA)</b>	<b>Flexible Spending Accounts (FSA)</b>	<b>Health Reimbursement Arrangements (HRA)</b>
<b>Funding/ Tax Aspects</b>	<ul style="list-style-type: none"> <li>Account is <u>funded</u>. Earnings grow tax-free.</li> <li>Contributions may be made either by the employer or the employee, or both, and may be made through a cafeteria plan.</li> <li>Subject to certain limits, employer contributions are excludable from gross income, and contributions by an eligible individual are deductible in computing adjusted gross income. Contributions are not subject to employment taxes.</li> <li>Rollovers are permitted from both MSAs and other HSAs, but not from FSAs or HRAs.</li> </ul>	<ul style="list-style-type: none"> <li>Account is generally <u>not funded</u>. Rather, reimbursements are paid from the employer's general assets.</li> <li>Contributions are typically made by employees through salary reduction, are excludable from income, and are not subject to employment taxes.</li> <li>There is no statutory limit to the amount of contributions that may be made; any limits are by plan design.</li> </ul>	<ul style="list-style-type: none"> <li>Account is generally <u>not funded</u>. Rather, reimbursements are paid from the employer's general assets.</li> <li>Contributions must be solely employer-paid, are excludable from income, and are not subject to employment taxes.</li> <li>There is no statutory limit to the amount of contributions that may be made; any limits are by plan design.</li> </ul>
<b>Contribution Limits</b>	<ul style="list-style-type: none"> <li>Maximum contributions (computed on a monthly basis based on the individual's health coverage) are the lesser of: (i) the annual deductible under the high deductible policy, or (ii) \$2,650 (in the case of self-only coverage) or \$5,250 (in the case of family coverage) (estimated for 2004; indexed in \$50 increments thereafter).</li> <li>Maximum contribution amounts are decreased by the aggregate amount, if any, paid into an Archer Medical Savings Account (MSA) or another HSA.</li> <li>The maximum contribution amount is increased for individuals who are age 55 or older (again computed on a monthly basis). These individuals may contribute an additional \$600 in 2005, increasing by \$100 increments each year until the limit reaches \$1,000 in 2009.</li> </ul>	<ul style="list-style-type: none"> <li>There are no contribution limits.</li> </ul>	<ul style="list-style-type: none"> <li>There are no contribution limits.</li> </ul>
<b>Nondiscrimination Rules</b>	<ul style="list-style-type: none"> <li>Nondiscrimination rules require an employer who makes contributions into an HSA for any employee to make comparable contributions to HSAs of all comparable participating employees. Failure to do so subjects the employer to an excise tax.</li> </ul>	<ul style="list-style-type: none"> <li>Nondiscrimination rules prohibit discrimination in favor of highly compensated individuals with respect to eligibility or benefits. (Code section 105(h)).</li> <li>Also may be subject to cafeteria plan non-discrimination rules.</li> </ul>	<ul style="list-style-type: none"> <li>Nondiscrimination rules prohibit discrimination in favor of highly compensated individuals with respect to eligibility or benefits. (Code sec.105(h)).</li> </ul>
<b>Carryover of Funds</b>	<ul style="list-style-type: none"> <li>Amounts not used for medical expenses by the end of the year may be carried over to future years, and are non-forfeitable.</li> </ul>	<ul style="list-style-type: none"> <li>Amounts not used for medical expenses by the end of the year are subject to a "use it or lose it" rule that prevents carryover to future years.</li> </ul>	<ul style="list-style-type: none"> <li>Amounts not used for medical expenses by the end of the year may be carried over to future years. Limits may be imposed by plan design.</li> </ul>

	<b>Health Savings Accounts (HSA)</b>	<b>Flexible Spending Accounts (FSA)</b>	<b>Health Reimbursement Arrangements (HRA)</b>
<b>Death of Account Holder</b>	<ul style="list-style-type: none"> <li>• If the surviving spouse is the designated beneficiary of the account, the HSA will be created as if the spouse is the account holder.</li> <li>• If any person other than the surviving spouse is the designated beneficiary, the HSA will cease to be an HSA as of the date of death, and an amount equal to the fair market value of the assets in the account on such date will be includible in the gross income of that person or, in the absence of a designated beneficiary, in the account holder's estate.</li> <li>• A deduction is permitted for qualified medical expenses incurred by the decedent before death if paid within one year of death.</li> </ul>	<ul style="list-style-type: none"> <li>• The only amounts that may be distributed upon the employee's death are reimbursements for medical expenses incurred by the employee or by the employee's spouse or eligible dependents prior to the date of the employee's death.</li> </ul>	<ul style="list-style-type: none"> <li>• Upon the account holder's death, the account may continue to be used by a spouse or eligible dependents for reimbursement of medical expenses.</li> <li>• When there is no longer a spouse or eligible dependents, the account must be forfeited.</li> </ul>

<sup>1</sup>Health Savings Accounts ("HSAs") were passed by Congress as part of the " Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act)", which President Bush is expected to sign into law on December 8. HSAs are effective for years beginning after December 31, 2003.

<sup>2</sup>Code section 213(d) provides that the term "medical care" means amounts paid (A) for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of effecting any structure or function of the body; (B) for transportation primarily for and essential to medical care referred to in subparagraph (A); (C) for qualified long-term care services (as defined in section 7702B(c)); or (D) for insurance (including amounts paid as premiums under part B of title XVIII of the Social Security Act, relating to supplementary medical insurance for the aged) covering medical care referred to in subparagraphs (A) and (B) or for any qualified long-term care insurance contract (as defined in section 7702B(b)).