Tax-Advantaged Accounts for Health-Related Expenses

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Background information for S.41,
An act relating to regulating entities that administer health reimbursement arrangements

Tax-advantaged accounts for health-related expenses

- Health reimbursement arrangements (HRAs)
- Health savings accounts (HSAs)
- Flexible spending accounts (FSAs)

Health reimbursement arrangement (HRA)

Who establishes/ contributes?

- HRAs are established by _**employers**_ to reimburse employees for qualifying medical expenses
- Only _**employers**_ can contribute to HRA
- No limits on amount of employer contributions
- Employer contributions to employee's HRA are not subject to federal income or employment taxes
- Reimbursements are tax-free if used for qualifying medical expenses

What is eligible for reimbursement?

- _**Employer**_ determines which qualifying medical expenses will be reimbursable under HRA
- Qualifying medical expenses may include (per IRS Publication 502):
  - Health insurance premiums
    - Medical services provided by physicians, surgeons, dentists, and other health care professionals
    - Medical equipment, supplies, and diagnostic devices
    - Eye exams, eyeglasses, and contact lenses
    - Prescription drugs

Other features

- HRAs do not need to be fully funded at beginning of term, just funded as employees incur reimbursable expenses
- Reimbursements can be made to current and former employees, their spouses, dependents, and adult children under 27 years of age
- Employer may opt to allow balance to roll over from year to years and/or for employees to take balance with them when they leave the job or retire
- Employer may opt for HRA to pay first dollar for out-of-pocket expenses or for employee to pay first dollar

Health savings account (HSA)

Who establishes/contributes?

- Established by *__individuals__*
- Must be used in conjunction with a high deductible health plan (HDHP)
  - 2019 HDHP minimum annual deductible: $1,350 individual/$2,700 family
- Individual, employer (if employer-sponsored HDHP), family members, and anyone else can contribute
- Annual limit on contributions
  - 2019 contribution limit: $3,500 individual/$7,000 family
- Employer contributions to employee's HSA are not subject to income or employment taxes

What is eligible for reimbursement?

- Tax-free distributions from HSA can be used only for qualified medical expenses listed in IRS Publication 502, including medical, dental, and vision expenses
- HSA funds cannot be used for health insurance premiums
- HSA distribution for purposes other than qualified medical expenses will incur income tax, will likely also incur additional 20% tax

Other features

- Qualified medical expenses are those incurred by individual, spouse, and dependents
- Unused balances can be rolled over from year to year

Flexible spending account (FSA)

Who establishes/ contributes?

- ***Employer*** establishes FSA
- Usually funded through voluntary salary reduction agreements, though employer can contribute, too
- No federal income or employment taxes are deducted from contributions
- Entire annual amount of FSA is available before all contributions are deposited
- Annual limit on contributions
  - 2019 limit: $2,700

What is eligible for reimbursement?

- Tax-free distributions from HSA can be used only for qualified medical expenses listed in IRS Publication 502, including medical, dental, and vision expenses
- HSA funds cannot be used for health insurance premiums

Other features

- Qualified medical expenses are those incurred by employee, spouse, dependents, and adult children under 27 years of age
- FSAs usually cannot be rolled over from year to year, though plan may provide 2½-month grace period or up to $500 carryover (but not both)

HRA vs. HSA vs. FSA

	HRA	HSA	FSA
Employer owns the account	✓	✗	✓
Individual owns the account	✗	✓	✗
Requires high-deductible plan	✗	✓	✗
Can use for health plan premiums	✓	✗	✗
Employer and employee may contribute	✗	✓	✓
Only employer may contribute	✓	✗	✗
Annual contribution limit	✗	✓	✓

Questions?