

HSA / FSA / HRA

Comparison of Key Features for 2021

Health Savings Accounts (HSA)

Health Flexible Spending Arrangements (FSA)

Health Reimbursement Arrangements (HRA)



PATTERSON SMITH ASSOCIATES, LLC

We design, build and manage employee benefit programs



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OVERVIEW	HSA	Health FSA	HRA
Account Description	Tax-exempt trust or custodial account established by an eligible individual to pay for qualified medical expenses	Employer-established benefit plan that allows eligible employees to be reimbursed for qualified medical expenses	Employer-established benefit plan that reimburses eligible employees for qualified medical expenses
Important Reminders for 2021	New annual limits on contributions apply	Annual limit on contributions and carryover limit remain the same. In addition, a health FSA must qualify as excepted benefits* and be offered through a Section 125 cafeteria plan, or the arrangement will violate certain requirements under the Affordable Care Act (ACA).	Two new types of HRAs can be offered, beginning in 2020. In addition, new annual limits on contributions to qualified small employer HRAs (QSEHRAs) apply.
Potential Tax Benefits for Employees	<ul style="list-style-type: none"> • Employee contributions are tax-deductible or pre-tax (if made by salary reduction) • Employer contributions are excluded from gross income and are generally not subject to employment taxes • Earnings on amounts in an HSA are not included in gross income while held in the HSA • Distributions to pay for qualified medical expenses are tax free 	<ul style="list-style-type: none"> • Contributions (by both employee and employer) are generally excluded from gross income and not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed 	<ul style="list-style-type: none"> • Employer contributions are excluded from gross income and are not subject to employment taxes • Reimbursements used to pay qualified medical expenses are not taxed

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EMPLOYEE ELIGIBILITY	HSA	Health FSA	HRA
<p>High Deductible Health Plan (HDHP) Coverage Required?</p> <p>Note: A health plan will still qualify as an HDHP even though it provides certain preventive health services without a deductible, as required by the ACA.</p>	<p>Yes. For 2021, the minimum annual deductible is \$1,400 for self-only coverage or \$2,800 for family coverage. The maximum deductible and other out-of-pocket expenses (excluding premiums) is \$7,000 for self-only coverage or \$14,000 for family coverage.*</p> <p><small>* Non-grandfathered HDHPs must also apply the self-only cost-sharing limit for coverage of essential health benefits provided in-network (\$8,550 for 2021) to each individual covered under the plan, even if this amount is below the family deductible limit.</small></p>	<p>No; however, a health FSA will be considered to provide excepted benefits* only if the employer also makes available other group health plan coverage that is not limited to excepted benefits (and the health FSA is structured to meet certain other requirements)</p>	<p>No; however, each type of HRA has its own design requirements. For example, Group Health Plan HRAs (GHP-HRAs) must be integrated** with other group health plan coverage, while employers with QSEHRAs cannot offer a group health plan to any employees, among other requirements. To offer an Excepted Benefits HRA (EBHRA), an employer must offer a group health plan.</p>
<p>Who May Participate</p> <p>Note: Self-employed persons are not eligible for a health FSA or HRA.</p>	<p>An individual is eligible to establish an HSA if he or she:</p> <ul style="list-style-type: none"> • Is covered under a high deductible health plan (HDHP) • Is not covered by any other health plan that is not an HDHP (including coverage in a general purpose health FSA solely as a result of unused carryover amounts from the prior year), except for certain limited types of coverage • Is not enrolled in Medicare • May not be claimed as a dependent on another person's income tax return 	<p>Employer sets rules for eligibility.</p> <p>Health FSAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)).</p> <p>Employers also must comply with nondiscrimination rules for cafeteria plans under Section 125 regarding eligibility, contributions, and benefits for highly compensated and key employees.</p>	<p>HRAs may not discriminate in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC Section 105(h)); in addition, each type of HRA has its own eligibility requirements.</p> <p>In general, employees (and their spouses and dependent children) who are covered under the HRA must be:</p> <ul style="list-style-type: none"> • Enrolled in a group health plan (for a GHP-HRA); • Enrolled in individual health coverage or Medicare, for an Individual Coverage HRA (ICHRA); • Offered group health plan coverage (enrollment not required), for EBHRAs; • Former employees, for retiree-only HRAs. <p>Any employee may enroll in a QSEHRA or HRA that pays excepted benefits. However, employers offering QSEHRAs may exclude seasonal or temporary employees and employees younger than 25, among others.</p>

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CONTRIBUTIONS	HSA	Health FSA	HRA
Who May Contribute	The employee, the employer, or both may contribute (family members or any other person may also contribute)	The employee, the employer, or both may contribute	Only the employer may contribute
Limit on Contributions	Yes. For 2021, the maximum contribution is \$3,600 for self-only coverage, or \$7,200 for family coverage. The limit is increased by \$1,000 for eligible individuals age 55 or older at the end of the tax year.	Yes. For 2021, salary reduction contributions to a health FSA are limited to \$2,750 .	No Limit: GHP-HRA, ICHRA, HRA that pays only excepted benefits, retiree-only HRA. EBHRA Limit: \$1,800 for 2021 (indexed annually for inflation). QSEHRA Limit: \$5,300 for self-only coverage and \$10,700 for family coverage for 2021 (indexed annually for inflation).
Pre-Tax Employee Contribution Allowed	Yes, contributions can be made through employee salary reductions under a cafeteria plan	Yes, typically funded through salary reduction agreements in which employees elect an amount to be voluntarily withheld from wages (A health FSA must be offered through a Section 125 cafeteria plan in order to be exempt from the annual dollar limit prohibition under the ACA)	No, funded solely through employer contributions
Employer Participation	Employer contributions made through a cafeteria plan are subject to the Section 125 nondiscrimination requirements. All other employer contributions are subject to the "comparability rules," meaning that the employer must make comparable contributions to all comparable participating employees' HSAs.	Employer contributions must comply with the nondiscrimination requirements of IRC Sections 105(h) and 125	Employer contributions must not discriminate in favor of highly compensated individuals as provided by IRC Section 105(h)

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DISTRIBUTIONS	HSA	Health FSA	HRA
Expenses Eligible for Reimbursement	<p>Qualified medical expenses (generally those that would qualify as expenses for "medical care" as defined in IRC Section 213(d)).</p> <p>Health insurance premiums are generally not considered qualified medical expenses for HSA purposes, unless the premiums are for:</p> <ul style="list-style-type: none"> • Qualified long-term care insurance (premiums are subject to limits based on age and are adjusted annually) • Health care continuation coverage required by federal law (e.g., COBRA) • Health care coverage while an individual is receiving unemployment • Medicare and other health care coverage if the employee is 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap) 	<p>Qualified medical expenses (those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC Section 213(d)).</p> <p>A health FSA may be limited to a subset of permitted Section 213(d) medical expenses.</p> <p>FSA distributions are not permitted for the following expenses:</p> <ul style="list-style-type: none"> • Amounts paid for health insurance premiums • Amounts paid for long-term care coverage or expenses • Amounts covered under another health plan <p>Note: Under the ACA, group health plans are required to cover certain preventive services without cost-sharing. A health FSA that does not qualify as excepted benefits* fails to meet the preventive services requirements.</p>	<p>Qualified medical expenses (those that generally would qualify as expenses for "medical care" as defined in IRC Section 213(d)), but each type also has its own rules for eligible expenses:</p> <ul style="list-style-type: none"> • GHP-HRA: cannot reimburse individual health insurance premiums, but may reimburse Medicare premiums if certain requirements are met • ICHRA: can reimburse individual health insurance premiums and Medicare premiums • EBHRA: cannot reimburse individual or group health insurance premiums (other than COBRA), or Medicare Parts B or D • QSEHRA: can reimburse individual health premiums • HRA-pays excepted benefits: can only reimburse excepted benefits, such as limited-scope dental or vision coverage • Retiree-only HRA: can only reimburse medical care expenses after retirement, including premiums for individual health insurance and Medicare

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OTHER ISSUES	HSA	Health FSA	HRA
Balance and Carryover	Amounts remaining in an HSA at the end of the year are generally carried over to the next year	<p>Amounts of up to \$550 remaining in a health FSA at the end of the plan year may be carried over to the immediately following plan year or, alternatively, a plan may provide for a grace period of up to 2 ½ months after the end of the plan year in which the employee may use amounts remaining from the previous year.</p> <p>Employers may permit employees to apply unused amounts remaining in a health FSA at the end of a plan year ending in 2021 (or a grace period ending in 2021) to pay or reimburse expenses incurred through Dec. 31, 2021.</p> <p>Note: An individual who is covered by a general purpose health FSA is not eligible to make HSA contributions during the entire plan year of the health FSA, even if the individual has coverage solely as a result of unused carryover amounts from the prior year.</p>	Amounts remaining in the HRA at the end of the year can generally be carried over to the next year. The employer is not permitted to refund any part of the balance to the employee.
Portable to the Employee?	Yes, the employee is the owner of the account	No	No, the employer is the owner of the account

*Benefits provided under a health FSA are excepted for a class of participants only if they satisfy [two requirements](#):

1. Other group health coverage, not limited to excepted benefits, is made available for the year to the class of participants by reason of their employment; and
2. The arrangement is structured so that the maximum benefit payable to any participant in the class for a year cannot exceed two times the participant's salary reduction election under the health FSA for the year (or, if greater, cannot exceed \$500 plus the amount of the participant's salary reduction election). **Note:** Unused carryover amounts remaining at the end of a plan year that satisfy the modified "use-or-lose" rule are not taken into account when determining whether this requirement is satisfied.

**An HRA will be integrated with a group health plan if it meets the requirements under either of two integration methods described in [agency guidance](#), as clarified by [ACA FAQs](#).

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For More Information

Please review IRS [Publication 969](#) for a detailed explanation of HSAs, health FSAs, and HRAs, as well as IRS [Publication 15-B](#) for additional information regarding the tax treatment of these types of arrangements.

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