



## National Association of Health Underwriters

Comparison of Health Savings Accounts (HSAs), Medical Savings Accounts (MSAs), Flexible Savings Accounts (FSAs) and Health Reimbursement Arrangements (HRAs)

	<b>Health Savings Account (HSA)</b>	<b>Medical Savings Account (MSA)</b>	<b>Health Reimbursement Arrangement (HRA)</b>	<b>Flexible Savings Account (FSA)</b>
<b>Account Overview</b>	Tax-exempt trust or custodial account created to pay for the qualified medical expenses of the account holder and his/her spouse or dependents.	A tax-exempt trust or custodial account with a financial institution in which account holders can save funds to use exclusively for future qualified medical expenses. <sup>1</sup>	An employer funded account used to reimburse employees for qualified medical care expenses.	A cafeteria plan authorized under Section 125 of the Internal Revenue Code. FSAs can be created to reimburse for qualified medical expenses, health insurance premiums for premium-only accounts, or dependent care expenses.
<b>Funding</b>	Individual and/or an employer.	Employer or employee (not both) or self-employed individuals.	Employer-only (self-employed individuals are precluded).	Typically funded by an employee.
<b>Eligibility</b>	Individuals and families covered by a qualified high-deductible health insurance plan.	An employee or the spouse of an employee of a small employer <sup>2</sup> covered by an individual or family high-deductible health insurance plan. Self-employed individuals or a spouse of a self-employed individual who maintains an individual or family high-deductible health	An employee whose employer offers an HRA.	An employee whose employer offers an FSA option. Employees may also create a Dependent Care Account for qualifying dependents.

<sup>1</sup> Medical Savings Accounts were authorized as a demonstration project in 1996 under the Health Insurance Portability and Accountability Act (HIPAA). Provisions expired December 31, 2003 and were not reauthorized. Existing MSAs may continue or be transferred into a Health Savings Account but no new MSAs can be authorized.

<sup>2</sup> Small employer is defined as an employer with 50 or fewer employees.

		insurance plan.		
<b>Health Plan Requirements</b>	Qualified high-deductible health insurance plan with a minimum of a \$1,000 annual deductible for an individual and \$2,000 for families. Maximum out-of-pocket limits, including the deductible, are \$5,000 for an individual and \$10,000 for a family. The HDHP may provide first-dollar coverage for preventive care. <sup>3</sup>	For 2003, the high-deductible health plan requirements for individual deductibles must be between \$1,700 and \$2,500 and between \$3,350 and \$5,050 for families. Maximum out-of-pocket expenses are limited to \$3,350 for individuals and \$6,150 for families. HDHP may provide first-dollar coverage for preventive care.	No corresponding health plan requirements.	No corresponding health plan requirements.
<b>Contributions</b>	Account holders or an employer or both may contribute to an HSA. A maximum of up to 100% of the deductible amount of the corresponding HDHP up to \$2,600 for an individual and \$5,150 for a family account may be contributed for 2004.  Once an individual turns 65, contributions are no longer permitted however; funds may continue to be withdrawn from existing accounts.	Employees or employers may contribute to an MSA but not both in the same year. Up to 75% of the amount of the annual HDHP deductible for family coverage and 65% of the deductible for an individual may be contributed. Contributions are limited to the amount of earned income for the year from an employer or for a self-employed individual, the net self-employed annual income.	Only an employer may contribute to an HRA. There are no limits to the amount an employer may contribute.	An employee, employer or both may contribute to an FSA. There are no limits to contributions for an FSA however, employers typically set a limit. <sup>4</sup>
<b>Qualified Medical Expenses</b>	Unreimbursed qualified medical expenses as defined in Section 213 (d) of the Internal Revenue Code, except (in general) for health	Same requirements as HSAs.	Unreimbursed qualified medical expenses as defined in Section 213 (d) of the Internal Revenue Code, including	Same requirements as HSAs.

<sup>3</sup> For Preferred Provider Organizations (PPOs), the maximum out-of-pocket expenses refer to in-network services only.

<sup>4</sup> The maximum annual contribution for Dependent Care Accounts is \$5,000 for individuals with dependents or for individuals filing taxes jointly.

	insurance premiums: e.g., amounts paid for doctors' fees, prescription drugs, and medically necessary services not paid for by insurance (including many over-the-counter medicines). Funds generally may not be used to pay health insurance premiums, though exceptions exist.		health insurance premiums.	
<b>Carryover</b>	HSA funds may be carried over indefinitely throughout an account holder's lifetime. Upon death, an account may be passed on to a surviving spouse with out federal tax liability.	Same requirements as HSAs. Unspent funds currently in an MSA may be rolled over into a HSA.	Unused funds in an HRA may be carried over but are subject to limitations set by an employer.	Funds from an FSA may not carryover to the following year and leftover balances are forfeited by the employee.
<b>Portability</b>	Employees may take accounts with them when leaving or changing jobs.	Same requirements as HSAs.	HRA funds may be portable but the decision is at the discretion of the employer.	Funds from an FSA are not portable and employees forfeit unused balances when leaving or changing jobs.
<b>Tax Status</b>	Employee contributions are tax deductible and employer contributions are excludable from gross income and not subject to employment taxes.	Same requirements as HSAs.	Employer contributions are generally excludable from an employee's gross income. <sup>5</sup>	Employees are not subject to federal, Social Security, or in most states, state taxes on contributions to an FSA. Employers are not subject to FICA or unemployment taxes on FSA contributions.
<b>Withdrawals</b>	Funds not used to pay for qualified medical expenses may be withdrawn but are subject to an additional 10% tax penalty except when an individual is 65 or older, disabled or has died during the year.	Funds not used to pay for qualified medical expenses may be withdrawn but are subject to an additional 15% tax penalty except when an individual is 65 or older, disabled or has died during the year.	Withdrawals for non-medical expenses are not permitted.	Withdrawals for non-medical expenses are not permitted
<b>Interest</b>	Interest accrues without a tax penalty.	Same requirements as HSAs.	No requirement exists however; employers have discretion to credit interest to HRA accounts.	Interest does not accrue for FSA funds.
<b>Health Insurance</b>	HSA funds may be	MSA funds may be	Generally, funds from	A separate premium only FSA

<sup>5</sup> In an arrangement where an employer distributes unused HRA funds at termination either as a death benefit or as part of a severance arrangement, the funds will not qualify. Employers receive expense deductions for payments.

<p><b>Premium Payment</b></p>	<p>used to pay health insurance premiums in the following situations:</p> <ul style="list-style-type: none"> <li>• While an individual receives unemployment insurance</li> <li>• While an individual receives COBRA continuation benefits.</li> <li>• When an individual reaches age 65 for any health insurance except Medicare supplement policies.</li> </ul> <p>Funds from an HSA may be used to pay for qualified long-term care insurance premiums</p>	<p>used to pay health insurance premiums in the following situations:</p> <ul style="list-style-type: none"> <li>• While an individual receives unemployment insurance</li> <li>• While an individual receives COBRA continuation benefits.</li> </ul> <p>Funds from an MSA may be used to pay for qualified long-term care insurance premiums.</p>	<p>an HRA can be used to pay for health insurance premiums under:</p> <ul style="list-style-type: none"> <li>• The employee's health plan</li> <li>• A spouse's health plan</li> <li>• An employee's retiree health plan</li> <li>• COBRA continuation coverage</li> </ul> <p>Individuals may use HRA funds to pay for qualified long-term care insurance premiums.</p>	<p>may be created to pay an employee's contribution toward the monthly cost of health insurance premiums. Under a salary reduction arrangement, the employee agrees to contribute a portion of salary on a pre-tax basis to pay for qualified benefits.</p> <p>Long-term care insurance is specifically excluded as a qualified benefit under the IRS code</p>
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