

Consumer-Directed Health Plans

Health Reimbursement Arrangements / Health Savings Accounts

| | |
|---------------------------------------------------------------------|------------------------------------------------------|
| Expenses Above Out-of-Pocket Maximum 100% Covered by Plan | |
| Expenses Above Deductible up to Out-of-Pocket Maximum | |
| Most In-Network Employee pays coinsurance % | Out-of-Network Employee pays coinsurance % |
| Deductible Gap or “Bridge” Employee Responsibility | |
| Health Account Employer and/or Employee Contribution | |
| Preventive Care 100% Covered by Plan | |

| | HSA | HRA |
|---------------------------------------------------|----------|----------|
| Employer can contribute to Health Account | Yes | Yes |
| Employee can contribute pre-tax to Health Account | Yes | No |
| Who owns Health Account Funds | Employee | Employer |
| Health Account can roll over to new year | Yes | Yes |
| Can be written with Flexible Spending Account | No | Yes |

Comparison Chart for HSA, HRA and FSA Accounts (2006 Regulations)

| | HSA | HRA | FSA |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Health Plan Requirements | A high deductible health plan with a minimum single deductible of \$1,050 and family deductible of \$2,100. The maximum out-of-pocket cost is \$5,250 for a single and \$10,500 for a family. | No requirement. | No requirement. |
| Who funds the account? | Employer and/or employee | Employer only | Employer and/or employee |
| How much can be contributed? | A maximum of 100% of the deductible up to \$2,700 for a single and \$5,450 for a family can be contributed. Once a member turns 65, contributions are no longer permitted, but funds may continue to be withdrawn. | There is no limit. | An employee can make an annual election of no more than \$5,000 per year for health care and \$5,000 for dependent care. |
| Who owns the money in the account? | Employee | Employer | Employee |
| Will my balance be forfeited after a certain amount of time? | No. | The health plan's credits must be used while the member is covered by that plan. Unused credits are forfeited if the member terminates employment, (other than retirement) or changes health plans. | Yes. Unused balances are forfeited annually. Expenses must be incurred by year's end (or by termination of employment, if before year's end). Otherwise, the employee loses unused funds. |
| Can unused amounts carry over from year to year? | Yes. | Yes. Unused credits carry over year to year as long as the member remains in the sponsoring health plan. | No. The employee must incur expenses by year's end (or by termination of employment, if before year's end) and submit a request for reimbursement no later than 2 1/2 months following the end of the plan year. |
| Is the account portable? | Yes. The member owns the account and keeps the account even if the member changes health plans. | Credits in an HRA are forfeited if the member leaves employment (except for retirement) or changes plans. | Credits in an FSA are forfeited if the member leaves employment (except for retirement) or changes plans. |
| Does interest accrue? | Interest accrues on a tax-free basis in qualified HSAs. | Credits in an HRA do not earn interest. | Interest does not accrue. |
| What is the tax treatment for members? | A member's voluntary contributions are tax deductible, up to the annual maximum allowable amount. Account distributions are tax-free as long as funds are spent on qualified medical expenses. | Reimbursements are limited to qualified medical expenses and are tax-free. | Employee contributions to an FSA are pre-tax and therefore reduce annual taxable income, including FICA taxes. Reimbursements are only allowed for eligible medical expenses. |

| | HSA | HRA | FSA |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What expenses qualify for distribution? | Qualified medical expenses defined under §213(d) of the Internal Revenue Code (IRC), except for amounts distributed to pay health insurance premiums. HSAs can be used to pay premiums for (1) Temporary Continuation of Coverage (TCC), (2) Long Term Care Insurance (3) retiree health insurance premiums including Medicare after age 65 (4) health insurance premiums while receiving unemployment compensation and (5) over-the-counter medications. | Qualified medical expenses defined under §213(d) of the Internal Revenue Code (IRC) (including health care, over-the-counter medications, Medicare insurance premiums and qualified Long Term Care Insurance premiums). | Qualified medical expenses defined under §213(d) of the Internal Revenue Code (IRC), except for amounts paid for health insurance premiums and Long-Term Care Insurance premiums, but including most over-the-counter medicines and products. |
| Can funds be used for non-medical expenses? | Yes, but non-health care distributions are included in gross income and subject to a 10% penalty if under age 65. | No. | No. |
| Must a medical expense be incurred during the plan year that the contribution is made? | No. However, no reimbursements can be made for expenses incurred prior to the establishment of the account. | No. However, no reimbursements can be made for expenses incurred prior the effective date of plan enrollment. | Yes. Expenses must be incurred during the plan year of the contribution in order to be eligible for reimbursement. |
| Is the annual amount of the contribution available on the first day of coverage? | No. Only the amount of the accumulating health plan monthly "premium pass through" and the individual's voluntary contributions to date are available for reimbursement. | It depends on the way the health plan chooses to administer this benefit. | Yes. The annual amount the employee elected is available on the first day of coverage regardless of the amount contributed by the date of the reimbursement request. |
| Is proof of expenses required? | No. The member should be prepared to substantiate to the IRS that the expense has been incurred, the amount of the expense, and its eligibility. | Yes. IRS regulations governing HRAs require that each claim be substantiated by an "explanation of benefits" statement or through itemized receipts. | Yes. IRS regulations governing FSAs require that each claim be substantiated by an "explanation of benefits" statement or through itemized receipts. Some expenses may require a letter of medical necessity from the employee's physician. |
| Can it be integrated with other accounts, i.e. an FSA or HRA? | No. If the member is enrolled in an HDHP with an HSA, participation in a general FSA is not allowed. | Yes. If the member is enrolled in an HDHP with an HRA, participation in an FSA is allowed. Also, if HSA eligibility is lost during the plan year, the member may then have an HRA. | No. |