



HRA vs. HSA:

Which One Should I Offer?

As always, the answer depends on your needs and what you are trying to accomplish. Knowing the basic similarities and differences between an HRA and an HSA is essential to making the right decision.

What is an HRA?

A Health Reimbursement Arrangement (HRA) is usually an unfunded notional account, with no cash value, in which employers use to reimburse employees' healthcare expenses. Payment is made *after* the employee incurs an expense, and funds do not accumulate in a separate account.

What is an HSA?

A Health Savings Account (HSA) is a savings account established by an individual to pay for qualified medical expenses. They are usually linked to qualified health insurance plans – typically high-deductible – and both employer and employee can contribute to it.

Similarities and Differences

Let's begin with the *similarities*. HRAs and HSAs are generally offered with deductible-based health plans. They help members become more involved in their own health care decisions by giving them control over how and when they spend their health care dollars. The employer contributes to the HRA and HSA plans. Money put into these accounts are tax-deductible, and money taken out is tax free or tax-deductible. Unused funds from these plans may be rolled over from year-to-year.

The four main *differences* between HRAs and HSAs can be classified by (1) who owns the account, (2) who controls it, (3) who can contribute to it, and (4) its compatibility with a health insurance plan. Refer to the comparison chart below for an in-depth understanding:

Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
Employers contributes after expense is incurred	Employer contributes full amount whether or not expenses are incurred
Funds stay with the employer when the employee leaves the company	Funds go with the employee if they leave the company
Only employers may contribute	Employers, employees or third parties may contribute
Employer determines maximum contribution	IRS determines annual maximum contribution
No restrictions on type of health insurance	May be paired with qualified high deductible plan
Employer contributions can be adjusted by class of employee	All employees receive same employer contribution
May be used with a Flexible Spending Account (FSA) with few restrictions	May only be used with restricted, limited-purpose Flexible Spending Accounts (FSA)
Funds are paid from company bank account	Employee sets up account with bank or broker, and has a separate policy with insurance company
Employee or provider submits receipts for payment	Employee manages own account and submits expenses for payment
May be used to pay health insurance premiums	Cannot be used to pay health insurance premiums, except for qualified long-term care, while receiving federal or state unemployment compensation, or COBRA plans and Medicare premiums
Funds cannot be invested in interest-bearing accounts	Funds can be invested in interest-bearing accounts or, if the administering firm allows it, mutual funds

Additional benefits for an employer choosing an HRA include:

- Having more freedom to select the type of expenses covered by HRAs. In some cases, this includes payment for dental and vision (section 213(d) of the IRS code).
- The ability to adjust contributions according to the class of employee.
- An easy to use, real-time monitoring of liabilities, reimbursements and utilization through the HRA Administration Reporting Features.
- The ability to change plan benefits, or even cancel the plan, at any time.

Which one is best for my business?

Generally speaking, HRAs usually cost employers less, provide the most flexibility, and are still beneficial to employees. HSAs are more favorable to employees and provide them with more control, but are more costly to employers. The typical amount an employer contributes within an HRA is one-half of the deductible amounts of the company medical plan. For example, if the medical plan has a \$1,000 deductible per individual and a \$2,000 deductible per family, a typical HRA contribution would be \$500 for individuals and \$1,000 for families.

The type of account should be chosen with care, and both the HRA and HSA plans are an important part of the benefits an employer offers to its employees. It is important to communicate to employees the value of each plan.