

Tax-Advantaged Accounts Fact Sheet

March 2016

HEALTHCARE ACCOUNT-BASED PLANS

Health Flexible Spending Arrangement (FSA), (also referred to as Health Flexible Spending Account)	<ul style="list-style-type: none"> • Participants allocate dollars to a health FSA for anticipated healthcare expenses, as defined in Internal Revenue Code (IRC) Section 213(d). • Employer contributions may also be made to health FSAs. • Contributions are not taxable to the employee. • Annual election is most commonly deducted evenly out of each paycheck. • Common uses include: (1) employee out-of-pocket costs (including deductibles, dental, vision, prescription, and office visit co-pays), (2) services not covered by insurance, such as orthodontia, medical devices, and autism treatments, and (3) prescribed over-the-counter (OTC) drugs and medicine. • An estimated 35 million Americans rely on FSAs to get healthcare services they need.¹ • The Affordable Care Act (ACA) limits FSA salary reductions to \$2,500 in 2013 (indexed to inflation in subsequent years) and requires individuals to obtain a prescription to receive FSA reimbursement for OTC medicines. The 2016 limit is \$2,550. • Subject to design, employees can carry over up to \$500 of unused funds into the following plan year. As an alternative, an employer can design the plan to allow up to a 2½ month grace period in the new plan year where an employee could access prior plan year funds for current plan year claims. • Sometimes subject to the benefit continuation rules under COBRA, depending on the account balance. • With the exception of certain limited-benefit FSAs, an employer may only offer FSAs if it also provides group health coverage.
Health Reimbursement Arrangement (HRA)	<ul style="list-style-type: none"> • Defined contribution, self-insured healthcare arrangement that typically supplements high deductible health plan (HDHP) coverage, thereby reducing insurance premiums and giving employees greater control of their healthcare expenses. • Established and completely funded by the employer. • Reimbursements are not taxable to the employee. • Employers determine the healthcare expenses eligible for reimbursement, subject to IRC Section 213(d). • May be paired with any type of health plan. • Employers may only offer HRAs to those employees who are also offered a group health plan, with the exception of certain limited benefit HRAs • Subject to design, employees can carry over unused funds into the following plan year. • Employers can also allow former employees (e.g., retirees) to spend down their remaining balance. • In 2016, 27% of large employers offered an HRA.² • In 2014, there were approximately 10 million American employees who had an HRA.³ • The ACA requires individuals to obtain a prescription to receive HRA reimbursement for OTC medicines. • Almost always subject to the benefit continuation rules under COBRA.
Health Savings Account (HSA)	<ul style="list-style-type: none"> • Account is “portable” because the individual participant has full ownership and control; must be established with an employer-sponsored or individual HSA-qualified High Deductible Health Plan (HDHP). • Allows participants to save and invest funds to be used for healthcare expenses, subject to IRC Section 213(d). • Employers and/or participants can contribute money on a pre-tax basis. • Accumulated funds can be invested; investment income and gains are non-taxable as long as the funds are used for approved health medical care expenses.

¹ Extrapolated from U.S. Census Bureau statistics on number of employed, number of employers who offer FSAs, average enrollment statistics, and Visa research (conducted by C+R Research, July 2012)

² 20th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, March 2015

³ “U.S. Consumer-Driven Healthcare: Health Benefit Account Market Sizing”, Aite Group, November, 2013.

	<ul style="list-style-type: none"> • Distributions for any purpose beyond healthcare are taxable and maybe subject to a 20 percent excise tax. • As of 2013, 17.4 million Americans are covered by HSA-qualified HDHPs, up from 13.5 million in 2012.⁴ • As of December 31, 2014, there were approximately 13.8 million HSAs.⁵ • 78% of employers use, or plan to use an HSA in 2016.⁶ • Rarely subject to the benefit continuation rules under COBRA because HSAs are viewed as personal accounts. • Certain HSA compatible FSAs may be offered in conjunction with an HSA. • The ACA requires individuals to obtain a prescription to receive HSA reimbursement for OTC medicines.
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	HEALTH FSA	HRA	HSA
Employee Contributions	X		X
Employer Contributions	X	X	X
Requires a Health Plan be offered	X	X	X
Requires Enrollment in a Health Plan		X	X
Must Have A High Deductible Health Plan			X
Ownership Of Funds			
Employer	X	X	
Individual			X
Investment Of Balance			X
Tax Treatment			
Contributions	Non-Taxable	Non-Taxable	Non-Taxable
Reimbursements (For Medical Care)	Non-Taxable	Non-Taxable	Non-Taxable
Reimbursements (Non-Medical Care)	Not Allowed	Not Allowed	Taxable + 20% Excise Tax
Investment Gain	Not Applicable	Not Applicable	Non-Taxable
Requirement for independent substantiation that expenses are eligible prior to reimbursement	X	X	
Individual retains documentation for verification that expenses are eligible for reimbursement or subject to tax and/or penalties	X	X	X
Carry-Over Of Unused Funds At Year End	Plan can offer a carryover of up to \$500 of unused funds to the next plan year or offer a grace period of up to 2-1/2 months to use up previous year's funds.	X Employer Option	X
Portable			X
Spend Down Balance		Limited; Employer Option	X
Subject To Cobra	X In Some Cases	X	
Allows Use Of Debit Card	X	X	X

⁴ America's Health Insurance Plans (AHIP) found that 17.3 million people were enrolled in an HSA-eligible plan in January 2014 (See <https://www.ahip.org/Press-Room/2014/HSA-Census-Survey/>). CEHCS (EBRI/Greenwald & Associates Consumer Engagement in Health Care Survey) estimated that 26 million people were enrolled in an HSA-eligible plan in August 2014 (Fronstin and Elmlinger, 2014).

⁵ "2014 Year-End Devenir HSA Research Report", February, 2015 (<http://www.devenir.com/research/2014-year-end-devenir-hsa-market-research-report/>)

⁶ 20th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, March 2015

DEPENDENT CARE BENEFITS

Dependent Care FSA	<ul style="list-style-type: none"> • Allows individuals to set aside pre-tax dollars for work-related dependent care expenses for dependent children under the age of 13 or a spouse or other qualifying dependent who is physically or mentally incapable of self-care and lives in the same principle residence for over half the year. • Day care expenses must be incurred to allow the employee to work, look for work or be a full-time student (for at least five calendar months during the tax year). • Day care provider can be a licensed day care facility or private individual and can include: Before and after-school care, preschool or nursery school, extended day programs, au pair or nanny services (amounts paid for the actual care of the dependent), baby sitter (in or out of home), summer day camp, and elder day care. • Annual \$5,000 limit set in statute more than 20 years ago falls well below the national average for day care in almost every part of the country; annual limit has never been increased for inflation. <ul style="list-style-type: none"> ○ In 2013 in 30 states and Washington, D.C., average annual costs for infant center-based care was higher than a year's in-state tuition and related fees at a four-year public college.⁷ ○ In every region of the United States, average child care fees for an infant in a child care center were higher than the average amount that families spent on food. ○ 60 percent of funding for child care in U.S. comes directly from parents.⁸ • Cost of center-based care for one child exceeded annual median rent payments in almost half of states. For two children, the costs exceeded annual median rent in all 50 states and in Washington, D.C.⁹
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⁷ Child Care Aware® of America "Parents and the High Cost of Child Care," August 2014

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