Comparing HRAs & HSAs

Helping you understand how these plans differ.

Often confused for each other, Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs) are both tax-free benefit vehicles that help pay for eligible medical expenses. However, there are key differences beyond their basic definitions that are important to understand when considering health care benefits. Below is a close look at how the two compare.

	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
Overview	An HRA is an account used to help pay for a participant's eligible medical expenses and medical insurance premiums on a tax-free basis.	An HSA is an account used to help pay for a participant's eligible medical expenses on a tax-free basis.
Contributions	Employers can make contributions on behalf of current or former employees. Participants may not contribute to an HRA.	Employers can make contributions on behalf of current eligible employees. Participants may also make contributions to an HSA, if eligible.
Tax Implications for the Participant	HRA contributions are not considered state or federal taxable income for the participant. HRA contributions and eligible medical reimbursements are not reportable on the individual's tax return.	HSA contributions are not considered federal taxable income for the participant. HSA contributions and eligible medical reimbursements are reportable on the individual's tax return (Form 8889).
Tax Implications for the Employer	Since HRA employer contributions are not considered participant income, the employer is not subject to FICA tax.	Since HSA employer contributions are not considered participant income, the employer is not subject to FICA tax.
FSA Rules	In addition to using the HRA, participants may also contribute to, and get reimbursed for qualified medical expenses from, a Health Care FSA (Flexible Spending Account). FSAs can allow for a 3 month grace period or up to $550 carryover.	An employee who is covered by their own or a spouse's Health Care FSA (Flexible Spending Account) cannot participate in an HSA unless the FSA is modified to limit coverage to qualifying Dental and Vision expenses only.

	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
Eligible Health Insurance Plan Designs	HRAs can be used without a Health Insurance plan, or with any type of Health Insurance plan, including a High Deductible Health Plan (HDHP), if desired.	An HSA can only be used in combination with an HSA-qualifying HDHP as described by the IRS. Minimum HDHP deductible for 2020: • $1,400—Individual (self only) plan • $2,800—Family plan* Maximum HDHP out-of-pocket for 2020: • $6,900—Individual plan • $13,800—Family plan *A family plan may include an individual deductible; however, it is required to be at least $2,800 (2020). Other than wellness and preventative care, the deductible must be met before prescription drugs or copays are covered.
Portability	HRA participants have the ability to "spend down" unused funds during post-employment, including during retirement.	HSA participants have the ability to "spend down" unused funds during post-employment, including during retirement.
Interest	A trust based funded HRA can earn interest.	HSAs can earn interest.
Eligibility	Any employee or former employee who meets the employer's criteria is eligible to participate in an HRA. There are no eligibility restrictions based on Health Care FSA coverage or Health Insurance coverage, whether through the participant or spouse.	Any employee covered by the HSA-qualified HDHP is eligible to participant in the HSA except in the following cases: • An employee is NOT eligible to participate in an HSA if they are also covered by a non-HDHP (for example: a spouse's family plan). • An employee who is covered by their own or a spouse's Health Care FSA (Flexible Spending Account) cannot participate in the HSA unless the FSA is modified to limit coverage to qualifying Dental and Vision expenses only. • An employee cannot make HSA contributions if s/he is enrolled in Medicare.

	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)
Discrimination Rules	Employer must make comparable contributions on behalf of those meeting employer eligibility criteria.	Employer must make comparable contributions on behalf of all comparable participating employees in accordance with IRS guidance.
Maximum Contribution	There are no annual limits on employer contributions to a participant's HRA.	Maximum annual contribution limits (combined employer and participant contributions): • $3,550—Individual (self only) (2020) • $7,100—Family (2020) Catch-up for those over 55, $1,000
Reimbursable Medical Expenses	Qualified medical expenses reimbursable with an HRA are defined in IRC 213(d). Example of included: • Premiums for Health Insurance • Medicare Supplemental Insurance • Premiums for Dental, Vision and Long-Term Care Insurance • Medicare Part B and D	Qualified medical expenses reimbursable with an HSA are defined in IRC 213(d) Example of included: • Premiums for Dental, Vision and Long-Term Care Insurance • Medicare Part B and D Example of excluded: • Health Insurance premiums unless COBRA or unemployed • Medicare Supplemental Insurance
Non-Medical Withdrawals	No HRA withdrawals or distributions are allowed that are for non-medical purposes.	Non-medical HSA withdrawals or distributions are taxed as income and subject to a 20% penalty unless the participant is disabled, deceased or has attained Medicare eligibility age.
Death of Participant	Surviving spouse and eligible dependents of an HRA participant may continue to use the remaining account balance for qualified medical expenses and premiums. The participant cannot designate a beneficiary.	A surviving spouse may be named as an HSA beneficiary and can use the remaining account balance for qualified medical expenses. If the designated beneficiary is someone other than the spouse, the remaining account balance is taxed as income.