

# Parrott

## INSURANCE & BENEFITS

	Health Reimbursement Arrangements (H.R.A.)	Health Savings Accounts (H.S.A.)	Flexible Spending Accounts (F.S.A.)
<b>Applicable IRS Law</b>	IRC Section 106(c)(2)	IRC Section 223, PL 108-173	IRC Section 125
<b>Account Overview</b>	An employer funded account used to reimburse employees for qualified medical expenses. The employer has the discretion to choose what eligible expenses will be covered and at what amount.	Tax-exempt trust or custodial account created to pay for qualified medical expenses of the account holder and his/her spouse/dependents.	A cafeteria plan created to reimburse qualified medical expenses, health insurance premiums for premium-only accounts or dependent care expenses.
<b>Qualified Medical Expenses</b>	As defined in Section 213(d) of the IRC, including health insurance premiums.	As defined in Section 213(d) of the IRC, including health insurance premiums.	As defined in Section 213(d) of the IRC, including health insurance premiums.
<b>Eligibility</b>	An employee whose employer offers an H.R.A. regardless of the number of employees and to COBRA qualified beneficiaries. Not to self-employed. H.R.A.'s are not available to partners or spouses in a partnership, shareholders, and those who own more than 2% stock in a Sub S Corp and members of an LLC.	<ol style="list-style-type: none"> <li>Someone who is enrolled in a qualified high deductible health plan (HDHP).</li> <li>Has no other health plan in place, other than for Workers' Compensation, specific disease or illness, accidents, dental care, vision or long term care.</li> <li>Is NOT enrolled in Medicare (can be eligible for Medicare)</li> <li>Is not claimed as a dependent on someone else's tax return *</li> </ol>	An employee whose employer offers an F.S.A. option. Employers may also create a Dependent Care Account for qualifying dependents.

	<b>(H.R.A.)</b>	<b>(H.S.A.)</b>	<b>(F.S.A.)</b>
<b>Funding</b>	Employer Only (self-employed individuals precluded)	Individual and/or an employer, and/or family member	Employer or Employee
<b>Contributions</b>	Only the employer may contribute to an H.R.A. There are no limits to the amount.	Account holders or the employer or both may contribute.  For 2009, the maximum contribution is \$3,000 for self-only and \$5,950 for family.	An employee, employer or both may contribute to an F.S.A. There are no limits to contributions. However, employers typically set the limit. The maximum annual contribution for Dependent Care Accounts is \$5,000 for individuals with dependents or for individuals filing taxes jointly.
<b>Health Plan Requirements</b>	No corresponding health plan requirement. Account can be used for copays, deductibles, coinsurance, and/or out of pocket.	For 2009, the minimum deductible is \$1,150 for self-only and \$2,300 for family. The maximum out of pocket is \$5,800 for self-only and \$11,600 for family. The plan can have no copays (office visits or prescription) prior to deductible on non-preventive services.	No corresponding health plan requirement.
<b>Employer obligated to ensure expenses are qualified</b>	Yes	No. Individual is responsible.	Yes
<b>Portability</b>	At employer's discretion	Yes. Once the account is funded, the account holder owns the money.	No. Employees forfeit unused balances. (Use it or lose it).
<b>Carry Over</b>	At employer's discretion.	Funds may be carried over indefinitely throughout an account holder's lifetime. Upon death, an account may be passed on to a surviving spouse without federal tax liability.	No. Employees forfeit unused balances.

	<b>(H.R.A.)</b>	<b>(H.S.A.)</b>	<b>(F.S.A.)</b>
<b>Tax Status</b>	Employer contributions are generally excludable from an employee's gross income. In an arrangement where an employer distributes unused H.R.A. funds at termination either as death benefit or as part of severance, the funds will not qualify as an expense deduction.	Employee contributions are tax deductible and employer contributions are excludable from gross income and not subject to employment taxes.	Employees are not subject to Federal, Social Security, or in most states, state taxes on contributions to an F.S.A. Employers are not subject to FICA or unemployment taxes on F.S.A. contributions.
<b>Withdrawals</b>	Withdrawals for non-medical expenses are not permitted.	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.	Withdrawals for non-medical expenses are not permitted.
<b>Interest</b>	No requirement exist, however, employers have discretion to credit interest to H.R.A. accounts.	Interest accrues without a tax penalty.	Interest does not accrue for F.S.A. funds.
<b>Health Insurance Premium Payment</b>	Generally, funds from an HRA can be used to pay health premiums under the following: the employee's health plan, or retiree health plan, a spouse's health plan, for COBRA continuation, and for qualified long term care plan.	H.S.A. funds may be used to pay health insurance premiums when an individual receives unemployment insurance, while an individual receives COBRA continuation, when an individual reaches age 65 for any health insurance except Medicare supplemental policies, and for long term care premiums.	A separate premium only F.S.A. may be created to pay an employee's contribution toward the monthly cost of 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. Long term care is specifically excluded under the IRS code.
<b>Subject to COBRA</b>	Yes	No	Yes, in limited circumstances.

	(H.R.A.)	(H.S.A.)	(F.S.A.)
<b>Discrimination</b>	IRC Section 105 (h) and HIPAA	Comparability rules for contributions (same amount or percentage for all employees with comparable coverage).	IRC Section 125
<b>Penalty for Discrimination</b>	IRC Section 105 (h) and HIPAA Penalties	35% excise tax on employer's aggregate H.S.A. contributions.	IRC Section 125
<b>Concurrent Health Coverage</b>	Yes	Only on Qualified High Deductible Health Plan, Dental, Vision and Long Term Care.	Yes

\* *Note from HSA Eligibility:* Self-employed, partners, and those who own more than 2% stock in a S-Corp (including their spouses and family members) are not generally considered employees and cannot receive pre-tax employer contributions to their Health Savings Accounts. Self-employed can only take an above-the-line deduction for their premium and H.S.A. contribution. Regardless of how the S-Corporation or LLC is structured, the company cannot make pre-tax contributions to owners, shareholders, or partners. Please seek the advice of an accountant with any other questions.