

HRA vs. HSA for Self-Employed

This comparison has been designed with the typical BASE® HRA self-employed business owner in mind. With increasing health care costs, self-employed business owners are looking to consumer-driven health plans, such as the MSA, HRA, HSA, and FSA. Below you will find information on the HSA and HRA to help you understand the difference between two of the more popular consumer driven plans.

	Health Reimbursement Arrangement (HRA)		Health Savings Account (HSA)		ADVANTAGE	
					HRA	HSA
Overview	An employer funded benefit plan, without any salary reduction, that reimburses employees for qualified medical expenses.		An account created in conjunction with a High Deductible Health Plan (HDHP) to pay for qualified medical expenses.		√	The HRA was created in 1954 and over the last 50 years has been thoroughly reviewed, clarified and tested. The HSA was created in late 2003 and many clarifications are still pending.
Eligibility	Any employee that satisfies the employer established non-discrimination rules under IRC § 105(h).		Any individual covered under a qualifying HDHP and not qualified for Medicare or under another non-qualifying health plan.		√	The HRA does not require a HDHP.
Health Plan Requirements	None.		Must have a qualifying HDHP. For individual coverage an annual deductible no less than \$1,150 with a maximum annual out of pocket limit of no more than \$5,800. For family coverage an annual deductible no less than \$2,300 with an annual out of pocket limit of no more than \$11,600.		√	The HRA will work with any Health Insurance policy, regardless of deductible amounts and out of pocket maximums.
Funding	Employer funded.		Employer and/or employee funded.		√	Employer controls benefit dollar amounts of the HRA.
Contribution Limits	Unlimited*. <i>*Within plan parameters.</i>		100 % of the deductible or \$2,900/\$5,800*, whichever is less. <i>*Born before 1952, add \$1,000.</i>		√	The HSA is restricted to a maximum funding of \$2,900/\$5,800 (individual/family) per year.
Tax Treatment	Employer Deductible by the employer.	Employee Non-taxable to the employee.	Employer Employer portion is non-taxable to the employee and deductible by the employer.	Employee Employee funding is typically a post-tax contribution and deductible as a personal expense on the 1040.	√	HRA is 100% deductible from a federal, state, and self-employment taxes standpoint.
Non-Discrimination Requirements	Subject to non-discrimination requirements under §105(h).		Employer must make “comparable” contributions for all employees.		√	With an HRA, the employer has the ability to exclude certain employees (i.e. Part-time, Age, Length of service)
Allowed Benefits	Reimbursement of qualified health insurance premiums and medical expenses under § 213 (including OTC drugs).		Reimbursement of qualified medical expenses under § 213 (including OTC drugs). <i>NO health insurance premiums.</i>		√	Health Insurance premiums are also deductible with the HRA.
Carry over	Unused funds may be carried forward to subsequent years.		Unused funds may be carried forward to subsequent years.			√ HSA funds may be invested and earn interest non-taxable.
Administration	Generally self-administered or TPA.		Funds held by qualifying trustee (ie. bank, insurance company, etc.), directed by individual.		√	With the HRA, funds are not transferred to/from a third party (ie. bank, insurance company, etc.).

* S-corporation shareholder employees exempt from FICA tax only

NOTE: Insurance regulations may prohibit the reimbursement of health insurance premiums in your state. For additional details, please contact a BASE® Benefit Specialist.