

# HSA PROVISION OF MEDICARE PRESCRIPTION DRUG IMPROVEMENT AND MODERNIZATION ACT OF 2003 COMPARED WITH FSA AND HRA FEATURES

	HSA	FSA	HRA
<b>GENERAL DESCRIPTION</b>	Trust account used to accumulate pre-tax funds Pays for Section 213(d) expenses Must have High Deductible Health Plan (HDHP), \$1,000 single, \$2,000 family, opm of \$5,000 single, \$10,000 family May be offered thru cafeteria plan Amounts are indexed for inflation	Employer-sponsored benefit — employees receive reimbursement for Section 213(d) expenses Offered as part of cafeteria plan, but no mandate for associated health plan	Employer-sponsored benefit — employees receive reimbursement for Section 213(d) expenses May be offered with high deductible health plan, but not required
<b>EFFECTIVE DATE</b>	1/1/04		
<b>ELIGIBILITY</b>	Determined monthly Must be covered by high deductible plan and not by low deductible plan Cannot contribute if Medicare eligible	Employer eligibility rules & make prior election under cafeteria plan	Employer eligibility rules
<b>DRUG BENEFITS</b>	Subject to medical deductible Will force integration of most PBM claim data with medical plans	No impact	Preferred benefit is integration with major medical deductible
<b>OFFICE VISITS</b>	Subject to medical deductible	No impact	Preferred benefit is integration with major medical deductible
<b>PREVENTIVE CARE, VISION, DENTAL, ACCIDENT, DISABILITY, LONG TERM CARE</b>	Carve-out allowed	No impact	Carve-out allowed
<b>ELIGIBILITY OF PREMIUMS</b>	No medical coverage except LTC, COBRA health If over 65: Medicare Part A or B, Medicare HMO, employee share of group medical plan, but NOT Medigap	Not eligible	Defined by plan doc Cannot include employee share of group medical plan — but can include COBRA and retiree medical care, LTC, etc.
<b>FUNDING</b>	Cash in a personal account Excludable from gross income within limits If made thru cafeteria plan, then exempt from FICA as well	Pay as you go bookkeeping accounts Excludable from gross income, no statutory limit	Pay as you go bookkeeping accounts Excludable from gross income, no statutory limit
<b>AVAILABILITY OF FUNDS</b>	Like a Dependent Care account — payable only if cash has been deposited into the account — a significant downside to cash flow for plan member	Available on first day of plan year, regardless of amount actually funded	Usually available first day of plan year, depending on plan document
<b>COBRA</b>	Does NOT apply	Required	Required Can pay premium from account
<b>VESTING</b>	Immediate	Immediate	Employer control
<b>NON-QUALIFIED DISTRIBUTIONS</b>	Allowed, subject to income tax and 10% excise tax	Not allowed	Not allowed
<b>CARRYOVER OF FUNDS</b>	Yes	No — the unpopular "use-it-or-lose-it" rule still applies	Yes, may be limited by plan design
<b>DEATH OF ACCOUNT HOLDER</b>	Spouse if designated, treated as account holder Other beneficiary receives taxable distribution	Reimbursements for pre-death expense	Family can spend down
<b>EMPLOYER CONTROL OF BENEFITS</b>	Minimal	Extensive	Extensive
<b>PORTABILITY</b>	Yes	No	No
<b>EMPLOYEE CONTRIBUTION LIMITS</b>	Complex — vary by single/family, aggregate of spouses, age, deductible, employer contribution Annual maximum is # eligible months x 1/12 of lesser of deductible or \$2,600 single, \$5,150 family (indexed) Can be funded on first of year	No limit	None allowed
<b>EMPLOYER CONTRIBUTIONS</b>	Allowed, but subject to discrimination requirements "comparable contributions" — same \$ amount or same % of HDHP deductible — pro rata allowed	Generally none	Defined by medical plan
<b>MULTIPLE PLANS</b>	HRA and/or FSA not allowed to reimburse deductible expenses	No rule	Order of FSA/HRA reimbursement must be defined by plan
<b>ROLLOVER BETWEEN PLANS</b>	Allowed with special rules	Not allowed	Not allowed
<b>TRUSTEE</b>	Required	Not required	Not required
<b>CLAIM SUBSTANTIATION</b>	Employee is responsible and must retain records with tax documents No TPA required	Extensive requirements	Extensive requirements
<b>EMPLOYEE DISCRETION ON REIMBURSEMENT</b>	Can allow funds to accumulate with tax free earnings	Use it or lose it — but if not auto reimbursed, can choose what claims to submit	Defined by plan Some are automatic, some are discretionary But no vesting encourages claim filing
<b>PRICE</b>	Likely born by account owner	\$2-4 PEPM	\$3-4 PEPM
<b>DEBIT CARD</b>	Self-substantiation makes this the ideal product for debit card reimbursement	Removal of 1099 requirement makes this more attractive, but onerous substantiation requirements still make debit cards more hassle than old fashioned paper	Allowed, with similar substantiation issues as FSA
<b>AUTO REIMBURSEMENT</b>	Allowed, but less likely to be popular, as many plan members will want assets to accumulate rather than use them in the current year	Attractive, and a major selling feature	N/A for most plans, as HRA administration is usually integrated
<b>RETIREMENT IMPLICATIONS</b>	Employer can provide an attractive vehicle for retirement accumulation No ER contribution is required	None	Possible application, but not well established from a regulatory point of view