

Comparing HRAs and HSAs

	HRA <i>(Health Reimbursement Arrangement)</i>	HSA <i>(Health Savings Account)</i>
Overview		
Description	An arrangement established by the employer in which the employer's funds are used to reimburse employees or pay providers for eligible medical expenses.	A tax-exempt trust or custodial account established in conjunction with a qualified high deductible health plan (HDHP), for the purpose of tax-free payment of eligible medical expenses of the account holder and eligible dependents.
Eligibility	<ul style="list-style-type: none"> (1) Current and former employees, their spouses and tax dependents (2) Owners and officers of a C Corporation (3) A surviving spouse and dependents of a deceased employee may also be eligible. (4) There is no restriction on group size. (5) Less than 2 percent owners of an S Corporation and non-partner employees in an LLC/LLP. 	Individuals who meet all of the following requirements: <ul style="list-style-type: none"> (1) Covered under an HDHP on the first day of the month (2) Not covered by any other health plan that is not an HDHP (3) Not enrolled in Medicare (4) Not claimed as a dependent on another person's tax return (5) There is no restriction on group size.
Ownership	Employer	Employee
Tax advantages	Employee: All reimbursements are tax free. Employer: Contributions are tax deductible.	Employee: <ul style="list-style-type: none"> (1) Pre-tax or tax-deductible contributions (2) Tax-deferred growth (3) Tax-free distributions on qualified medical expenses Employer: Contributions are tax deductible.
Pairing an HRA or HSA with a health plan	An HRA can be paired with any health plan or it can stand alone, depending on the HRA administrator.	A qualified high deductible health plan must be in force before an HSA can be established through any HSA administrator or financial institution that offers HSAs.
High Deductible Health Plan (HDHP) Requirements	None.	According to the government, a high deductible health plan for 2008 is a health plan with a minimum deductible of \$1,100 for individual coverage and \$2,200 for family coverage. For 2008, the maximum out-of-pocket expense cannot be greater than \$5,600 for individual coverage and \$11,200 for family coverage. Calendar-year deductibles and out-of-pocket limits are adjusted annually according to the Consumer Price Index (CPI).
Combining HRAs and HSAs	If an individual is covered by an HRA that pays for medical expenses, generally the individual is not eligible for an HSA. Exceptions: <ul style="list-style-type: none"> (1) Limited Purpose HRA: Designed to pay or reimburse expenses for permitted insurance or permitted coverage, such as dental, vision, fixed amount/day hospitalization, specified disease or illness. (2) Suspended HRA: At the beginning of an HRA coverage period, an individual elects to suspend any medical expense reimbursement or payment for a designated period to be eligible for HSA contributions, except for preventive care, permitted insurance and permitted coverage. (3) Post Deductible HRA: Does not pay or reimburse any medical expenses incurred before the minimum annual deductible for the HDHP is met. (4) Retirement HRA: Designed to pay or reimburse only those medical expenses incurred after retirement. 	

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Funding		
Annual contribution limit for 2008	No restrictions.	Individual - \$2,900 Family - \$5,800 Individuals age 55 and older may make additional catch-up contributions of up to \$900.
Contributions	Contributions are made by the employer. The HRA does not need to be prefunded.	Contributions can be made by the employee, employer and/or any other person on behalf of the eligible individual. Employees can open an HSA in any month and still have the ability to make the maximum annual contribution to the account, regardless of the effective date. Restrictions apply. Consult your financial adviser.
Amount available on the first day of coverage	Employer decides how funds are made available.	Amount contributed to date.
Expenses		
Eligible healthcare expenses	Amounts paid for health insurance premiums and qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code; however, eligible healthcare expenses may vary based on the HRA selected.	Qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code; however, eligible healthcare expenses may vary based on the HSA selected.
Noneligible medical expenses	Funds cannot be used for nonmedical expenses.	10 percent tax penalty prior to age 65; at age 65, funds can be withdrawn for nonmedical expenses without tax penalty. Normal income tax applies for withdrawals at any age.
Features		
Fund rollover	It is the employer's choice upon establishing an HRA to allow rollover and/or to cap the amount that may roll over from year to year.	Unused funds roll over from year to year.
Portability	No. The HRA is owned by the employer.	Yes. Member owns the HSA and keeps it when leaving employer.
COBRA continuation	Subject to COBRA.	The HSA is not subject to COBRA, but the HDHP is subject to COBRA.
Employer		
Employer reporting	May require form 5500.	Employer contributions must be reported on the employee's W-2.
Comparability/ Nondiscrimination rules	Yes. Subject to nondiscrimination testing under IRC 105(h).	Yes. Employer contributions are subject to comparability rules under IRC 4980G; however, contributions made through an IRC 125 plan are subject to nondiscrimination testing under IRC 125. Higher employer contributions for non-highly compensated employees are permitted.
ERISA requirements	ERISA applies.	ERISA may apply if there are employer contributions. Safe harbors apply.
Additional Resources		
Compatible health plans administered by Starmark	Starmark Signature and Consumer Health Series, Signature 50/50 Advantage, PPO Plans, PPO Advantage Plans, HSA Select Plans, Qualified High Deductible Plans, Indemnity Plans, and Starmark Healthy Incentives PPO, Indemnity, CDHP PPO and CDHP Indemnity	Starmark Consumer Health Series, HSA Select Plans, Qualified High Deductible Plans, and Starmark Healthy Incentives CDHP PPO and CDHP Indemnity
Marketing materials	<i>Starmark HRA Employer Guide: S669-153</i> <i>Starmark HRA Employee Guide: S669-154; S669-154sf</i>	<i>Get the Most Out of Your Health Plan</i> <i>HDHPs and HSAs: A Powerful Combination</i> S669-50; S669-50sf

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