AHIP Center for Policy and Research

Comparison of Tax-Advantaged Health Care Spending Accounts
January 2005

Feature	Archer Medical Savings Accounts (MSAs)[1]	Health Savings Accounts (HSAs)	Health Flexible Spending Arrangements (FSAs)	Health Reimbursement Arrangements (HRAs)
Overview	A tax-exempt trust or custodial account with a financial institution in which account holders can save money exclusively for future qualified medical expenses.	A tax-exempt trust or custodial account created exclusively to pay for the qualified medical expenses of the account holder and his or her spouse or dependents.	A type of cafeteria plan authorized under Section 125 of the Internal Revenue Code.[2] Separate FSAs can be set up to cover each of the following types of expenses: (1) Health insurance premiums (known as a "premium-only plan"); (2) Qualified medical expenses; (3) Dependent care expenses.	An employer funded account that reimburses employees for qualified medical care expenses, typically combined with a high-deductible health plan.
Who is eligible to set up an account?	An employee (or the spouse of an employee) of a small employer (50 or fewer employees) covered by an individual or family *high deductible health plan* (HDHP), and a self-employed person (or the spouse of a self-employed person) who maintains an individual or family HDHP.	Individuals and families covered by *qualified high-deductible health plan*. Individuals and families cannot be covered by any other health plan that covers the same benefits as the high deductible health plan.	An employee whose employer offers an FSA option.	An employee whose employer offers an HRA.
What are the requirements for the corresponding health plan?	*High deductible health plan*: For 2005, self-only deductible must be between $1,750 and $2,650, with an out-of-pocket maximum of not more than $3,500; family deductible must be between $3,500 and $5,250, with an out-of-pocket maximum of $6,450.	*Qualified high-deductible health insurance*: For 2005, self-only deductible must be at least $1,000 for self-only coverage; $2,000 for family coverage.[3] The maximum of the deductible and annual out-of-pocket expenses required to be paid under the plan (i.e., copayments and	No health plan requirements.	No health plan requirements. HRAs may be used with any type of health plan or as a stand-alone account.

[1] MSAs were authorized as a demonstration program under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The program is scheduled to expire at the end of 2005.
[2] Cafeteria plans are plans under which participants may choose among 2 or more benefits consisting of cash and qualified benefits.
[3] The family deductible applies to the entire family as a unit, not to individuals as is more commonly the case in most health insurance policies.

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	Plan can provide first-dollar coverage of preventive care and still be qualified.	coinsurance, not premiums) is \$5,100 for self-only; \$10,200 for family. These limits are indexed to the CPI. Plan can provide first-dollar coverage of preventive care and still be qualified. For PPOs, deductible and out-of-pocket limits apply only to in-network services.		
Who may contribute to the account?	Either the employee or the employer, but an employee and an employer may not both make contributions to the MSA in the same year.	The account holder, the employer, or any other person.	The employee, employer, or both. Usually funded by employees, who choose to set aside a certain amount of their pay in an FSA account.	Solely the employer.
What are the limits on contributions?	75% of the amount of the annual health plan deductible for family coverage; 65% of deductible for self-only coverage, subject to an income limit. Contributions cannot exceed the amount earned for the year from one's employer or, if self-employed, net self-employment income.	Up to 100% of the deductible amount of the accompanying high-deductible health insurance policy, up to a maximum in 2005 of \$2,650 for a self-only account, \$5,250 for a family account. Future year limits indexed to the CPI.	No limits under federal income tax law for FSAs set up to pay for qualified medical expenses or health insurance premiums; employers typically set limits.[4]	No federal income tax law limits. Employers typically set limits, usually equal to or less than the amount of the deductible of employees' health plan.
What are qualified medical expenses?	Unreimbursed qualified medical expenses as defined in Section 213(d) of the Internal Revenue Code, except (in general) for health insurance premiums: e.g., amounts paid for doctors' fees, prescription medicines, and necessary medical services not paid for by insurance (including many over-the-counter medications). MSA funds generally cannot be used	Same as Archer MSAs.	Same as Archer MSAs.	Depending on how the employer sets up the HRA, employees may use HRA funds for qualified medical expenses as defined by the IRS, or use of the funds may be limited to medical expenses covered under the employer plan.

[4] Limit for Dependent Care Accounts is \$5,000 per family per calendar year for single taxpayers with dependents, or for married taxpayers who file a joint income tax return.

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	to pay health insurance premiums; however, there are certain exceptions. See below ("When can funds be used to pay health insurance premiums?").			
When can funds be used to pay health insurance premiums?	1. While receiving unemployment benefits 2. While receiving COBRA continuation benefits.	1. While receiving unemployment benefits 2. While receiving COBRA continuation benefits. 3. When age 65 or over for any health insurance except Medicare supplemental policies.	A separate FSA ("premium-only plan") can be set up to pay the employee's contribution toward the monthly cost of health insurance. Under a salary reduction agreement, the employee agrees to contribute a portion of salary on a pre-tax basis to pay for qualified benefits.	In general, funds can be used to pay for premiums under: 1. the employee's health plan 2. a spouse's health plan 3. the employer's retiree health plan 4. COBRA continuation coverage. However, premiums that may be paid by salary reduction may not be funded from an HRA.
Can funds be used to pay for long-term care coverage?	Yes, premiums for long-term care insurance are reimbursable.	Same as Archer MSAs.	No, the Internal Revenue Service code specifically excludes long term care insurance as a qualified benefit under a cafeteria plan; so long term care insurance premiums are not reimbursable under an FSA.	Same as Archer MSAs.
Are withdrawals for non-medical expenses allowed?	Yes, but distributions not used exclusively to pay "qualified medical expenses" are included in income and are subject to a 15% additional tax – except when the individual is age 65 or older, disabled, has died during the year.	Same as Archer MSAs, except the additional tax penalty is 10%.	No.	No.
What is the federal tax treatment of contributions?	Employee contributions are tax deductible. Employer contributions are excludable from gross income and not subject to employment taxes (e.g., FICA).	Same as Archer MSAs.	Employees pay no federal or Social Security taxes on FSA contributions. Employers pay no FICA tax or federal or state unemployment taxes on FSA contributions.	Employer contributions are generally excludable from employee's gross income. However, an arrangement that distributes the unused HRA amount at termination either as a death benefit or as a severance payment will not qualify as an HRA. Employers receive expense deductions for payments.

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Can funds be carried over from one year to the next?	Yes. MSA funds may be carried over indefinitely during a participant's lifetime. Upon a participant's death, an MSA may be passed on to a surviving spouse without federal tax liability.	Same as Archer MSAs. In addition, unspent funds from an Archer MSA may be rolled over into an HSA.	No. Unused FSA balances are forfeited at the end of the year.	Yes. Unused amounts in an HRA may be carried over, subject to any limits set by the employer.
Are accounts portable?	Yes. Employees may take funds with them when they leave or change jobs.	Same as Archer MSAs.	No. Unused FSA balances are forfeited if the employee leaves or changes jobs.	No. However, employers can set up HRAs so that they continue to reimburse former employees or retirees for medical care after termination or retirement.
Does interest accrue on funds deposited in the account?	Yes. Interest accrues tax free.	Same as Archer MSAs.	No. Interest is not accrued.	There is no requirement that interest accrue but employers have discretion to credit interest to the HRA accounts.