

Flexible Spending Accounts (FSA), Health Savings Accounts (HSA) and Health Reimbursement Arrangements (HRA) Regulations

FAQ's	Flexible Spending Arrangements	Health Reimbursement Arrangements	Health Savings Accounts
What are they?	<ul style="list-style-type: none"> A Health Flexible Spending Arrangement (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with employers. 	<ul style="list-style-type: none"> A Health Reimbursement Arrangement (HRA) is an employer-established benefit plan. These may be offered in conjunction with other employer-provided health benefits. Employers have complete flexibility to offer various combinations of benefits in designing their plan. Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount. Self-employed persons are not eligible for an HRA. 	<ul style="list-style-type: none"> A Health Savings Account (HSA) is a tax-exempt trust or custodial account that you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur.
How are they funded?	<ul style="list-style-type: none"> Employees annually elect an amount to be withheld from their salary pre-tax. 	<ul style="list-style-type: none"> Employer reimburses employee for qualified health expenses. HRAs are funded solely through employer contributions and may not be funded through employee salary deferrals under a cafeteria plan. These contributions are not included in the employee's income. 	<ul style="list-style-type: none"> Pre-determined amount set aside pre-tax in separate account and employee is reimbursed with receipt.
Who funds it?	<ul style="list-style-type: none"> Employee 	<ul style="list-style-type: none"> Employer Only. 	<ul style="list-style-type: none"> Employer and/or Employee.
What are the insurance requirements?	<ul style="list-style-type: none"> None. Can be used without insurance. 	<ul style="list-style-type: none"> None. 	<ul style="list-style-type: none"> Used only with High Deductible Health Plans (HDHP).

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What is the maximum contribution?	<ul style="list-style-type: none"> • There is a cap of \$2,550 annually. • Up to \$500 in unused funds can rollover into the following plan year. However, the employer can elect to allow less than \$500 to be carried over. 	<ul style="list-style-type: none"> • There is no limit on the amount of money your employer can contribute. • Can rollover amounts to pay for following years expenses. 	<ul style="list-style-type: none"> • The limit is adjusted each year by the IRS. • For 2016 the cap for Individuals is \$3,350 and \$6,750 for families. • Can rollover for following years.
What are the tax benefits?	<ul style="list-style-type: none"> • You do not pay federal income taxes or employment taxes on amounts you or your employer contributes. • No employment or federal income taxes are deducted from the contributions. • Withdrawals may be tax free if you pay qualified medical expenses. • You can withdraw funds from the account to pay qualified medical expenses even if you have not yet placed the funds in the account. 	<ul style="list-style-type: none"> • You do not pay federal income taxes or employment taxes on amounts your employer contributes. • Reimbursements may be tax free if you pay qualified medical expenses. 	<ul style="list-style-type: none"> • You can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA. • Contributions to your HSA made by your employer may be excluded from your gross income. • The interest or other earnings on the assets in the account are tax free. • Distributions may be tax free if you pay qualified medical expenses.
Is it a personal account?	<ul style="list-style-type: none"> • Yes, but not interest bearing. • The account is not portable and must be used by years end, or by termination date. • Unused funds are returned to the employer. 	<ul style="list-style-type: none"> • No, the money belongs to the employer and is an employee benefit. 	<ul style="list-style-type: none"> • Yes, and can earn interest. • The account is portable and belongs to the employee.

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<p>What can the funds be used for?</p>	<ul style="list-style-type: none"> • Only can be used for expenses defined under 213(D) of IRC. • A separate FSA account can also be established for Dependent Care Expenses. 	<ul style="list-style-type: none"> • Only can be used for expenses defined under 213(D) of IRC. • Cannot be used for Dependent Care Expenses. 	<ul style="list-style-type: none"> • Only can be used for expenses defined under 213(D) of IRC. • If money is withdrawn for other expenses it will be applied to gross income amount and will incur a 10% penalty. • Cannot be used for Dependent Care Expenses.
<p>How are eyeglasses/ eye health expenses treated?</p>	<p>Can be used to pay for:</p> <ul style="list-style-type: none"> • Eyeglasses (OTC or prescription) • Eye exams • Reading glasses • Prescription sunglasses • Eye related equipment/materials • Eye surgery or treatment to correct vision <p>Non-prescription sunglasses are not covered expenses.</p>	<p>Can be used to pay for:</p> <ul style="list-style-type: none"> • Eyeglasses (OTC or prescription) • Eye exams • Reading glasses • Prescription sunglasses • Eye related equipment/materials • Eye surgery or treatment to correct vision <p>Non-prescription sunglasses are not covered expenses.</p>	<p>Can be used to pay for:</p> <ul style="list-style-type: none"> • Eyeglasses (OTC or prescription) • Eye exams • Reading glasses • Prescription sunglasses • Eye related equipment/materials • Eye surgery or treatment to correct vision <p>Non-prescription sunglasses are not covered expenses.</p>

* **Medical Savings Accounts:** MSA's are for self-employed individuals and employees of certain small employers. Structure and set-up is similar to Health Savings Accounts.

* **Over-The-Counter (OTC) Medicines:** Section 9003 of the Affordable Care Act established a new uniform standard for medical expenses. Effective Jan. 1, 2011, distributions from health FSAs and HRAs will be allowed to reimburse the cost of over-the-counter medicines or drugs only if they are purchased with a prescription. However, the new rule does not apply to items for medical care that are not medicines or drugs. Thus, equipment such as crutches, supplies such as bandages, and diagnostic devices such as blood sugar test kits will still qualify for reimbursement by a health FSA or HRA if purchased after Dec. 31, 2010, and a distribution from an HSA or Archer MSA for the cost of such items will still be tax-free, regardless of whether the items are purchased using a prescription. Thus, eyeglasses are still covered expenses.

Source: IRS Publication 969.