HRAs and HSAs

What is an HRA?

A **health reimbursement arrangement** (HRA), such as HRA VEBA, is a tax-advantaged, account-based health plan that reimburses qualified, out-of-pocket healthcare costs incurred by you and your family (spouse and qualified dependents). HRAs are funded with contributions from your employer. All employees defined as eligible must participate per IRS rules.

What is an HSA?

Similar to an HRA, a **health savings account** (HSA) is a tax-advantaged, account-based health plan that reimburses qualified, out-of-pocket healthcare costs incurred by you and your family (spouse and qualified dependents). HSAs can be funded by the employer, employee, or a third-party. However, to make or receive contributions to an HSA, you must be covered only by an HSA-qualified high-deductible health plan (HDHP) and have no other "first-dollar" coverage.

How are HRAs and HSAs similar?

There are several similarities, such as:

- Contributions are tax-free
- Investment earnings are tax-free (assuming assets are invested)
- Withdrawals (claims) are tax-free
- Account balances carry over from year to year
- Account balances are portable after separation from service

Can I have both an HRA and an HSA?

You can be covered under an HRA, such as HRA VEBA, and an HSA, and you can use either account at anytime to reimburse your qualified expenses (no ordering rules). But, while making (or receiving) contributions to an HSA, you should elect "limited purpose" HRA coverage. Only certain dental, vision, and orthodontia expenses are covered while coverage is limited. Go to **hraveba.org** and click **Limited Coverage Election** to learn more.

What are some of the key differences?

	HRA	HSA
Pros	• No HDHP required; employer may offer a lower-cost health plan with a higher deductible, but is not required to do so • No annual maximum contribution limits • Eligibility criteria and funding determined via collective bargaining, employer policy, etc. • Can be used to reimburse qualified medical premiums before and after age 65, including Medicare supplement plan premiums	• Generally, anyone covered by a qualifying HDHP and no other first-dollar, non-HDHP coverage can open an HSA • Employers and/or employees may contribute if eligibility requirements are met • Non-medical withdrawals are allowed; however, such withdrawals before age 65 are subject to tax and a penalty; non-medical withdrawals after age 65 are subject to tax, but not a penalty
Cons	• No individual choice regarding participation or contributions per IRS rules; employees cannot individually elect to contribute their own money • Non-medical withdrawals not allowed; can only be used for qualified healthcare expenses and premiums	• HDHP required to be eligible to make or receive contributions; can have no other first-dollar coverage • Subject to annual maximum contribution limits • Covers only COBRA and post-age-65 health insurance premiums; medical premiums prior to age 65 not eligible unless receiving unemployment • Cannot be used to cover premiums for Medicare supplement plans

For more information, contact VEBA Service Group, a Division of Gallagher Benefit Services, Inc. (VSG).
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