“How can I maximize my health care benefits?”

HSA, HRA, FSA – It can all be very confusing. Fallon Health can help you decide what’s best for you.

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As health care costs rise, it's more important than ever to maximize your health care benefits. Participating in a personal health account is a good way to get more for your health care dollar. These accounts are basically savings accounts for your health care needs. However, with so many options, it can be confusing to decide which personal health account is best for you and your family. With this booklet, on the following pages, we will help to answer these questions:

What is a Flexible Spending Account (FSA)?

Learn who is eligible (page 3), how it compares to other personal health accounts (pages 6-7) and what items are qualified medical expenses (pages 8-9).

What is a Health Savings Account (HSA)?

Learn who is eligible (page 4), how it compares to other personal health accounts (pages 6-7) and what items are qualified medical expenses (pages 8-9).

What is a Health Reimbursement Account (HRA)?

Learn who is eligible (page 5), and how it compares to other personal health accounts (pages 6-7).

What is a **Flexible Spending Account** (FSA)?

A Flexible Spending Account is set up by your employer in conjunction with a medical plan offered by your employer. At the beginning of the year, you choose to have a certain amount deducted from your paycheck each pay period—before taxes—and put into the FSA. That total amount is available immediately. You can use that money to pay for qualified medical expenses—prescriptions, office visits, and eye and dental exams, to name a few (see pages 8-9 for a list of qualified expenses)—during the year. Here are a few things you should know about FSAs:

- **Use it or lose it**—any unused funds in your account at the end of the year are forfeited.
- **Check with your employer**—in order for you to qualify for an FSA, it must be offered by your employer.
- **You can't take it with you**—if you leave your job, you can't take your FSA with you to your next one.

For more details on FSAs and how they compare to other personal health accounts, please see the comparison chart on pages 6–7.

FSA real-life example

Jenna is married with two children. Her employer offers the option to set up an FSA. She decides to open an FSA of $1,500, because she also has a $1,500 family deductible. She wants the benefit of tax-free dollars she can use until her deductible has been met. She also knows that she will need to get some X-rays taken at her dental appointment in the fall. Jenna's husband, Stewart, has high blood pressure and fills a prescription monthly, paying $45 each time for a total of $540 annually. That's paid for through Jenna's FSA. Jenna's daughter, Zoe, hurt her ankle playing soccer. After a visit to their primary care doctor ($130) and an X-ray of the ankle ($300), it was determined that Zoe sprained her ankle and would need crutches ($250). All of those expenses were covered by Jenna's FSA, leaving her with $280 in the account to apply to her dental X-rays before the end of the year.

What is a **Health Savings Account** (HSA)?

Unlike an FSA, an HSA is a personal health account that is **owned** by you—the employee—not your employer. However, it can be **funded** by you, your employer or both of you. And like the FSA, funds may only be used on qualified health care expenses (see pages 8-9 for a list of qualified expenses). Also, HSAs can only be combined with qualified high-deductible health plans (QHDHP; see pages 6-7 for a definition). Additional HSA features include:

- **Don't use it? You won't lose it**—unused funds can be rolled over from year to year.
- **Earn interest**—because it's owned by you, you can earn interest on your savings.
- **You can take it all with you**—contributions to your account by your employer are owned by you, even if you change jobs.
- **Better with age**—after you reach age 65, you can withdraw funds for any reason and they will be taxed as normal income.

For more details on HSAs, and how they compare to other personal health accounts, please see the comparison chart on pages 6–7.

HSA real-life example

Sue just got her first job out of college. She is in good health and has minimal health expenses. Sue contributes $150 each month to her HSA for a total annual contribution to her HSA of $1,800. Outside of her annual physical, which was paid for by her health plan, Sue visited her primary care physician just once—when she was diagnosed with the flu. That visit cost $200 and was paid for out of her HSA. Sue also has seasonal allergies and requires a prescription for six months of the year—at a cost of $15 each month. Sue's health expenses paid for by her HSA total $290, leaving Sue with $1,510 to roll over to the next year. Because Sue owns this account, whatever is left at the end of each year will be rolled over to the following year. Sue sees her HSA as an excellent way to grow assets for future qualified medical expenses.

What is a Health Reimbursement Account (HRA)?

A Health Reimbursement Account is owned by your employer, and set up for you to use to pay for **qualified health care expenses as determined by your employer.** Your employer is the only one who can contribute to the HRA. Typically, an HRA does not pay interest. Some more facts about HRAs:

- **You can't take it with you**—just like with an FSA, you can't take your HRA with you from one job to another job.
- **Because they say so**—your employer determines which medical expenses qualify for reimbursement.
- **Don't use it? You will likely lose it**—employers are not required by law to let unused funds roll over from year to year, so most employers do not allow it.

For more details on HRAs, and how they compare to other personal health accounts, please see the comparison chart on pages 6–7.

HRA real-life example

Dave has an HRA fund set up by his employer that has $500 in it. His employer allows the HRA funds to be used on prescription copayments only. Dave is married with no children. Like most couples, Dave and his wife have a number of planned and unplanned health care expenses throughout the year. Dave's wife, Joan, has to fill a prescription for cholesterol medication each month at a cost of $30 per month, or $360 annually. That amount is paid for by the HRA fund. Dave wears eyeglasses and after his annual eye exam, he finds out he needs a stronger prescription. His new eyeglasses will cost $200. Dave applies the last $140 in his HRA toward his prescription and pays the remaining $60 out of his pocket. At the end of the year, Dave's HRA fund has nothing left in it.

Comparison guide to

As health care needs change, understanding the features and benefits of these three tax-a

	Flexible Spending Account (FSA)
Summary	Using pre-tax dollars, you pay for medical expenses and services not covered by your health plan. Your employer sets up the account.
Who owns the account?	Your employer
Who may pay into the account?	You, through payroll deferrals; your employer may also contribute.
Does the account earn interest?	No
Do unused funds roll over to the next year?	In most cases, no, but employers do have the option to allow up to $500 to be rolled over.
If you switch jobs/employers, can you take it with you?	No
Who is eligible?	You can be enrolled in any health plan.
What are eligible expenses?	Qualified medical expenses as defined by IRS Publication 502 (visit www.irs.gov for details)
Are contributions tax-free?	Contributions are tax-free.
What are the vesting rules?	Any funds contributed by you (the employee) are 100% vested.
Do medical expenses have to occur during the plan year to qualify?	Typically, yes. Exceptions may apply by employer.
Can I deduct the full amount at the beginning of the plan year for expenses?	Yes, these funds must be available on the first day of coverage.
Can this fund be used in conjunction with other funds?	FSAs can be combined with HRAs. HSAs can only be combined with a limited-purpose FSA.
Who is responsible to verify that funds are used for qualified expenses?	A third party (not the employee or employer)
Who does Fallon partner with to manage the account?	UltraBenefits

What do we mean when we say ...

- **Vesting** – this occurs when your employer grants a specific benefit to you—like an HSA or FSA—after you have yours to use towards your qualified medical expenses.
- **Qualified high-deductible health plans** – these are health plans with lower premiums and higher deductibles must have a minimum deductible of $1,350 per year for an individual, and $2,700 for families.
- **Qualified medical expenses** – these are the costs of diagnosis, cure, treatment, or prevention of disease, and t services delivered by physicians, surgeons, dentists and other medical providers.

FSAs, HSAs and HRAs

advantaged accounts may be helpful so you can make more informed health care choices.

Health Savings Account (HSA)	Health Reimbursement Account (HRA)
The HSA is set up at a financial institution in your (the employee's) name, allowing you to save and pay for medical expenses tax-free	Your employer decides what medical services and expenses are covered, and controls unused funds
You, the employee	Your employer
You, through payroll deferrals or a one-time rollover from an FSA, HRA or a retirement fund; your employer may also contribute.	Your employer only; you are not allowed to make contributions.
Yes	No
Yes	Usually; however, your employer isn't required to allow rollovers.
Yes	No
You have to be enrolled in a qualified high-deductible health plan (QHDHP)	You can be enrolled in any health plan, but it's typically offered with a high-deductible health plan.
Qualified medical expenses as defined by IRS Publication 502. Some non-medical expenses are allowed (taxed as income, plus these incur a 20% penalty until age 65)	Qualified medical expenses as determined by employer
Contributions are tax-free–and remain tax-free–as long as they are spent on medical expenses. The tax is on the withdrawl, not the contribution.	Contributions are tax-free.
All funds are always 100% vested.	Vesting is not typical.
No, but they cannot take place before the account has been created.	No, but they cannot take place before the account has been created.
No, only funds available to date can be used to pay for qualified expenses.	Yes, these funds are generally available on the first day of coverage.
HSAs can be combined only with a limited-purpose FSA. HSAs cannot be combined with HRAs.	HRAs can be combined with FSAs. HRAs cannot be combined with HSAs.
Employees	A third party (not the employee or employer)
Health Equity	UltraBenefits

been employed by that employer for a set period of time. If the funds are 100% vested, that means they are

than a traditional health plan. They are a form of catastrophic coverage. Qualified high-deductible health plans

he costs for treatments that affect any part or function of the body. They include payments for legal medical

Quick reference list of qualified medical expenses for FSAs, HSAs and HRAs

This is a **partial list** of qualified medical expenses. It is valid as of December 2017, and is subject to change. It is important to note that **HRA qualified medical expenses are determined by the employer. For a complete list, please visit www.irs.gov** and refer to the IRS publication 502 "Medical and Dental Expenses."

Eligible medical expenses

- Acupuncture
- Alcoholism treatment
- Ambulance
- Annual physical examination
- Artificial limbs
- Artificial teeth
- Bandages
- Birth control pills and contraceptives (when prescribed by a doctor)
- Body scan
- Braille books and magazines (when used by a visually impaired person and the materials cost more than regular printed editions)
- Breast reconstruction surgery
- Capital expenses
- Car (when special hand controls or other special equipment is installed for a person with a disability)
- Chiropractor
- Christian Science practitioner (for medical care)
- Contact lenses
- Crutches
- Dental treatment (does not include cosmetic dentistry or teeth whitening)
- Diagnostic devices
- Drug addiction therapy
- Drugs (prescribed by a doctor)
- Eyeglasses and eye exams
- Eye surgery
- Fertility enhancement
- Founder's fee
- Guide dog or other service animal
- Hearing aids, batteries and exams
- Home care
- Home improvements
- Hospital services
- Insurance premiums
- Lab fees
- Lead-based paint removal
- Learning disability
- Legal fees
- Lifetime care—advance payments
- Lodging
- Long-term care
- Medical conferences
- Medical information plan
- Nursing home
- Nursing services
- Operations
- Optometrist
- Osteopath
- Oxygen
- Physical examination
- Pregnancy test kit
- Psychiatric care
- Psychoanalysis
- Psychologist
- Special education
- Sterilization
- Stop-smoking programs
- Surgery
- Telephone
- Television
- Therapy
- Transplants/organ donor
- Transportation expenses
- Trips
- Tuition
- Vasectomy
- Vision correction surgery
- Weight-loss programs (when used as treatment for a specific disease diagnosed by a doctor)
- Wheelchair
- Wigs
- X-rays

Ineligible medical expenses

- Babysitting, child care, and nursing services for a normal, healthy baby
- Controlled substances (e.g., marijuana, laetrile, etc.)
- Cosmetic surgery and procedures
- Dancing lessons
- Diaper service
- Electrolysis or hair removal
- Funeral expenses
- Future medical care
- Hair transplants
- Health club dues
- Health coverage tax credit
- Health savings account
- Household help
- Illegal operations and treatments
- Insurance premiums
- Maternity clothes
- Medicines and drugs from other countries (unless the FDA has approved)
- Nonprescription drugs and medicines (except for insulin)
- Nutritional supplements
- Personal use items
- Premium tax credit
- Swimming lessons
- Teeth whitening
- Veterinary fees
- Weight-loss programs (if the purpose of the weight loss is the improvement of appearance, general health, or sense of well-being)

Get the most from your personal health account benefit

Here are a few more things you can do:

- Make sure you and your family save receipts and track all health care expenses, including things like eyeglasses and dental care. Do it on a monthly basis so you can estimate how much you and your family spend on health care expenses each month. This will give you a much clearer idea of how much you're likely to spend next year.

- If you have an FSA, create a monthly spending plan reflecting what you expect your health care costs to be. This can help eliminate the rush at the end of the year to spend what's left in your FSA before you lose it.

- Also for FSA holders—don't wait until the end of the year to make preventive health appointments like teeth cleanings and eye exams. Why? If you have those appointments early, you'll have plenty of time left in the year to spend on dental work or eyeglasses, if necessary.

- Understand the details of your plan and keep up with any changes that may occur year to year.

- You want to get the most from your health care dollar, so take time to research and compare costs.

Notes

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17-715-127 Rev. 01 12/17