CONSUMER-DIRECTED MODEL COMPARISON
HSAs, VEBA Plan, and FSAs

For 2014

FEATURE	Health Savings Accounts (HSAs)	VEBA Plan for Service Cooperatives	Flexible Spending Accounts (FSAs)
Market segment(s)	Individual, and groups of any size	Any Service Cooperative group	Groups of any size.
What is it?	An HSA is a tax-exempt trust or custodial account owned by an individual that can be funded by an employer and/or employee, or another individual. The HSA is used to help pay current medical expenses of the account holder and his or her spouse or dependents and to save for future medical expenses. Medical expenses are limited to Section 213(d) eligible expenses. Section 213(d) is the part of the tax code that outlines eligible expenses for medical FSAs, as well as HSAs.	The VEBA account is funded by the employer, pursuant to either a bargaining agreement or a personnel policy; either way, an individual may not decide to participate or not participate beyond the terms of the applicable agreement. The VEBA account is used to help pay for cost sharing under the health plan, and can also be used to pay additional expenses not covered by the health plan (limited to Section 213(d) eligible expenses). Section 213(d) is the part of the tax code that outlines eligible expenses for medical FSAs, as well as HSAs.	An FSA is funded by the employee with an optional election to fund the FSA with pre-tax payroll dollars. Employers can make contributions but it is rare to do so. The FSA is used to help pay employee cost sharing under the health plan, and can also be used to pay additional expenses not covered by the health plan and to pay Section 213(d) including dental and vision expenses. There are two types of FSAs – medical and dependent care. They are separate elections and cannot be used interchangeably.

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Health plan	Must be a qualified high deductible health plan with a minimum individual deductible of $1,250 and a family deductible of $2,500. The individual out-of-pocket maximum cannot exceed $6,350 and the family out-of-pocket maximum cannot exceed $12,700. The deductibles and out-of-pockets are subject to annual increases at renewal, based on the Consumer Price Index (CPI). There can be no individual deductible on family contracts, if the individual deductible is less than $2,500. All benefits are subject to the deductible (including prescription drugs) except preventive care.	The Service Cooperatives have designed health plans that can be paired with a VEBA. There are no federal requirements for health plan design	Any type or design of health plan can be offered. There are no federal requirements for health plan design.
Coordination of benefits (COB)	The health plan can only coordinate benefits with another qualified high-deductible health plan (HDHP) as defined by Federal law, in order to protect tax status of the HSA. Health FSAs must be limited to vision, dental and preventive until the health plan deductible is met. If an HSA is <u>not</u> established and contributions made to the account, then any other insurance is permissible, and the FSA does not need to be limited.	The health plan follows standard COB rules and the VEBA account pays after all other health plans have paid. A flexible spending account (FSA) pays before or after the VEBA account, based on the employer plan design.	Generally the health plan follows standard COB rules and the FSA pays after all other health plans have paid.
Employer contributions are tax deductible to the employer.	YES - on any dollars the employer contributes to the account.	YES	YES – on paid claims only.
Employer FICA tax is due on employer contributions.	NO- additionally employers realize FICA/FUTA savings on pretax employee contributions made via a cafeteria plan.	NO	NO

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Funds need to be deposited in an actual account in order to pay the liability on a claim.	YES	YES	Medical FSA elections are available in full on the first day of the plan year regardless of how much has been withheld pretax from their payroll check. Dependent Care FSA elections are only available up to the amount that has been withheld from their payroll check.
Employee can accumulate money to pay future medical expenses.	YES	YES, this is often an underlying strategy of these plans	YES, as long as the expense is incurred in the current plan year. The exception to this is Grace Period and Rollover.
Tax and penalty for withdrawals for non-eligible medical expenses.	YES- Income tax and 20% penalty, but no penalty at attained age 65 and later.	Non-qualified withdrawals are not allowed.	Non-qualified withdrawals are not allowed.
Employee contributions to the account are tax-deductible to the employee.	YES	N/A. All contributions are by the employer.	Yes, if deducted from their payroll. Only option is pre-tax.
Employee contributions and interest to the account are taxed as ordinary income.	NO	N/A. Employee contributions not allowed.	N/A.
Employee contributions are made with after-tax dollars.	YES, however contributions can also be made pretax via salary reduction under a cafeteria plan, if offered by employer.	N/A. All contributions are by the employer.	N/A.
Withdrawals for eligible medical expenses are taxable to the employee.	NO	NO	NO
Funds belong to the employee during employment and are portable (belong to employee after leaving employment)	YES	YES	Unused funds are forfeited back to employer, but employers can opt for more portability by electing either a Grace Period or the $500 rollover option.

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Both the employer and employee can contribute to account within same calendar year.	YES	N/A. All contributions are by the employer.	Yes, however it is rare that an employer would contribute to an FSA.
Combined medical and pharmacy deductible and out-of-pocket.	YES	YES	From a medical FSA, both medical and pharmacy claims are eligible as well as 213(d)
Are all medical Section 213(d) expenses covered? Note: 213(d) is the section of the tax code that outlines eligible expenses for various 'accounts', including MSAs and FSAs, and covers such things as lasik and acupuncture.	YES, except insurance premiums limited to 1) COBRA coverage, 2) Long term care 3) Over 65 retiree medical (but not Medicare supplements) **Note:** there are changes to eligibility of OTC drugs and medicines effective Jan. 1, 2011; they will now require a prescription	YES **Note:** there are changes to eligibility of OTC drugs and medicines effective Jan. 1, 2011; they will now require a prescription	YES
Investment options available.	YES, Available through SelectAccount. Funds selected by Devenir for SelectAccount.	Yes, Available through SelectAccount. Funds selected by Devenir for SelectAccount.	NO
Funds earn interest and roll over from year to year.	YES	YES	No interest; Rollover is based on employer design and IRS limits.
Cash-out option for the employee.	YES, subject to income tax and 20% penalty if for non-eligible medical expenses.	Neither cash-outs nor non-qualified withdrawals are allowed.	NO
Administrative fees are charged by the account administrator.	YES	YES	YES

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Availability of funds	As contributions are made.	As contributions are made.	Medical FSA elections are available in full on the first day of the plan year regardless of how much has been withheld pretax from their payroll check. Dependent Care FSA elections are only available up to the amount that has been withheld from their payroll check.
Summary plan descriptions (SPD) or employee certificate.	A Plan Document is required for employee pretax contributions under a cafeteria plan.	Required.	Required.
***Minimum* contribution each calendar year.**	NO	NO	NO, based on employer design.

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Maximum **contribution each calendar year.**	YES –up to an annual maximum of $3,300 for individuals and $6,550 for families. Maximum contributions are subject to annual cost-of-living adjustments, Persons age 55 or older (who are not on Medicare) can contribute up to $1,000 above the normal maximum (beg. in the tax year they turn 55). This will remain at $1,000 in subsequent years. Spouse is also eligible for catch up contribution if they have their own HSA account and are over 55. Annual contributions are normally subject to prorating based on the number of months of HDHP eligibility. Note that in the year the account is created, this requirement is waived if the HSA is opened by December 1 and HDHP coverage is maintained through December 31 of the following year. This allows for a full contribution in the first year of the HSA even though HDHP became effective mid year.	NO maximums. Some plans put unused sick leave and severance monies into the VEBA accounts.	Yes, for the medical FSA there is a $2500 limit for employee contribution. For dependent care FSA there is a $5000 annual limit.

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Is the account impacted by COBRA events?	Generally, NO. COBRA relates to the health plan, not the HSA. Individuals can continue to make contributions to the HSA while they are on COBRA, but the employer is not required to continue to make contributions, even if they do so for active employees. The assets of the HSA belong to the account holder and are only split or taken away based on a court order (e.g. divorce decree). If certain dependents are taken off the health plan due to COBRA events, this could impact how much money can be contributed to the HSA (if it changes the health plan deductible from family to single).	Yes, COBRA relates to the health plan and to the VEBA account. There are separate elections for each, and since the "premium" for the VEBA account is 102% of the contribution, it is unlikely that one would elect that.	YES, COBRA law applies to FSAs. COBRA participants must be treated the same as actives, in regards to the HRA. HRA account balances are created for COBRA events that result in a COBRA continuant being set up separately from the employee. Election of COBRA for the health plan means that the HRA must also be elected (this is a Blue Cross rule).
Can the health plan be purchased without purchasing the account?	YES - the individual or group may purchase the HDHP but decide not to offer or establish an HSA, or use an HSA custodian other than SelectAccount.	N/A. The product was designed to accommodate the VEBA accounts.	YES, the individual or group may purchase the group health plan but decide not to elect an FSA.

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Can sole proprietors, members of an LLC, LLP, or individuals owning more than 2% of an S Corp, participate in the account?	YES	N/A, as the product is only available to Service Cooperatives.	While IRS regulations prohibit these individuals from *participating* in an FSA, they may still *sponsor* an FSA and benefit from the savings on payroll taxes. "Employee" shareholders of regular corporations may participate in an FSA.
Regulatory Reference	Medicare Prescription Drug and Modernization Act, Title XII, Section 1201	Section 501 (c) (9) of the Internal Revenue Code	IRS code § 125, § 105(b) reimb; § 105(h) NDT; Prop. Treasury regulation 1.125-5 & 6
What can the account pay for in (early) retirement?	Early (pre-65) retirees CANNOT use HSA funds to pay premiums for retiree medical insurance. Account dollars CAN be used to pay the group's share of retiree medical insurance premiums AFTER reaching age 65. Account dollars CANNOT be used to purchase Medigap supplement policies, but dollars CAN be used to pay Medicare premiums.	Account dollars CAN be used to pay for eligible health insurance premiums and expenses, including Medicare and Medigap supplement policies, when Medicare eligible.	NA – FSA is for active employees only
Can (early) retirees still have dollars contributed to the account?	If HSA eligible, contributions into the account CAN continue (with a supplemental catch-up contribution amount for those 55 and older). Upon enrollment to Medicare, contributions into the HSA are no longer allowed (although these individuals can continue to make account withdrawals).	When VEBA is used for retirees, the VEBA plan is often funded with contributions from accumulated severance pay, sick pay and similar longevity-based benefits upon retirement.	No

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