1.4 HRA vs. HSA: Smarter Cost Containment Strategies for Employers

As **Q4 group medical insurance renewal season** approaches—when 85% of businesses face decisions about health coverage—employers are looking for strategies to **manage rising premiums** while also supporting employees' out-of-pocket costs. Two popular options are **Health Savings Accounts (HSAs)** and **Health Reimbursement Arrangements (HRAs)**.

Both provide **tax advantages** and improve affordability for employees, but they function very differently, and one often offers **greater control and cost predictability for employers**.

🧩 What Is an HSA?

A **Health Savings Account (HSA)** is an **employee-owned account** that pairs with a **High-Deductible Health Plan (HDHP)**.

- **Employer Match Option:** Employers can contribute funds, similar to a 401(k) match.

- **Employee Ownership:** The account belongs to the employee—even if they leave the company.

- **Tax Advantages:** Contributions are pre-tax; growth is tax-free; withdrawals for medical expenses are tax-free.

Pros:

- Empowers employees with **portable, long-term savings**

- **Triple tax advantage**

- Strong **recruiting and retention tool**

Cons:

- Funds are **permanently employee-owned**

- Employees may use dollars for non-healthcare expenses after leaving

- Requires enrollment in a **qualifying HDHP**

🧩 What Is an HRA?

A **Health Reimbursement Arrangement (HRA)** is an **employer-funded account** used to reimburse employees for eligible medical expenses.

- **Employer Control:** HRA dollars remain with the company if unused.

- **Flexible Design:** Employers determine what expenses are covered (deductibles, copays, prescriptions, etc.).

- **Tax Advantages:** Reimbursements are tax-free for employees and deductible for employers.

Pros:

- Employer **retains control of funds**

- Greater **flexibility in plan design**
- Can be paired with **any health plan type**, not just HDHPs

Cons:

- Employees **don't own the funds**
- Requires **clear communication** so employees understand how it works

---

⚖️ Which Strategy Supports Cost Containment Better?

- **HSA Match:** Great for **employee engagement and long-term savings**, but less predictable for employers since contributions are permanently given away.
- **HRA:** Provides **greater cost containment**, because:
    - Unused funds roll back to the company
    - Employers can **cap and customize coverage**
    - HRAs **target high-impact expenses** (e.g., deductible offsets) to reduce medical trend risk

Example: One client **shifted from an HSA match to an HRA deductible offset model** and **saved over $50,000 annually** while keeping employees' out-of-pocket costs manageable.

🧠 Underwriting Note

Some carriers may require **confidential health questionnaires** for HRA-based strategies, similar to level-funded plans. While this adds a step, the **premium savings and cost predictability** often make it well worth the effort.

🏆 Bottom Line

- Use **HSAs** if your strategy prioritizes **employee ownership and long-term savings**.
- Use **HRAs** if your priority is **cost containment, plan flexibility, and control of funds**.

Many employers are now pairing **HRAs with HDHPs, PEO master plans, or level-funded arrangements** to achieve the perfect balance of **savings, protection, and employee satisfaction**.

📩 Next Steps

Want to see if an **HRA strategy** could save your business money this renewal season?

Email: suzanna@peofortheceo.com for a **free side-by-side comparison** tailored to your company.