FIXED BENEFIT VERSUS REIMBURSEMENT MODELS, COMPARED

THE INDEMNITY DIFFERENCE

One pays an insured amount when a medical event is documented. The others return your own money against a receipt. The difference decides which workforce each one fits.

optivhealth.us · (833) MY-OPTIV

Published November 2025

Commissioned and published by The Optiv Group

WHITE PAPER · PLAN DESIGN

EXECUTIVE SUMMARY

A benefits buyer comparing tax-advantaged options is usually handed a list of acronyms and asked to pick one. The list flattens a real distinction. A health savings account, a flexible spending account, and a health reimbursement arrangement are reimbursement vehicles. They hold money and release it against a substantiated medical expense. A fixed indemnity benefit is insurance: it pays a defined amount when a covered medical event is documented, funded through a pre-tax cafeteria election rather than a personal account balance.[1]

These are not competing answers to one question. A reimbursement account asks whether an employee has medical spending to substantiate and the cash flow to fund the account in the first place. A fixed indemnity benefit asks whether a covered event occurred and was documented. The first rewards employees with discretionary income and the discipline to manage a balance; the second pays on an event without requiring the employee to fund and carry an account.[2]

Account-based models concentrate their value among higher-income, lower-turnover employees. For a workforce that is hourly, high-turnover, or contingent, the same models tend to sit unused, and the use-or-lose feature of the flexible spending account can convert a benefit into a forfeiture. The fixed indemnity structure was built for the workforce the account models reach least well. This paper compares the mechanics, the funding, and the tax treatment of each, then maps each to the workforce it fits. It does not argue one structure is superior in the abstract; it argues the structure should follow the workforce, and it names the one tax question at the frontier that remains open rather than resolving it by assertion.

HOW TO READ THIS

An important note before the comparison.

WHAT IT IS

An educational comparison of fixed indemnity insurance and the reimbursement family, matched to workforce fit.

WHAT IT IS NOT

Not legal, tax, or accounting advice, and not an opinion of counsel. Consult your own advisors on your facts.

1 **IRC §125; Treas. Reg. §1.125-1**
Cafeteria election funding the indemnity premium pre-tax.

2 **IRC §213(d); Treas. Reg. §1.125-5(c)**
Medical-care definition; the use-or-lose rule on the health FSA.

The Optiv Group sponsors this paper and has a financial interest in the Optiv Advantage program described, so the analysis may not be independent. The Optiv Advantage is a fixed indemnity supplemental program underwritten by an A-rated, state-licensed carrier; it is not minimum essential coverage and complements, not replaces, major medical. Indemnity payments are not free of tax. Figures are 2026 IRS statutory limits, not outcomes.

TWO MECHANICS, TWO QUESTIONS

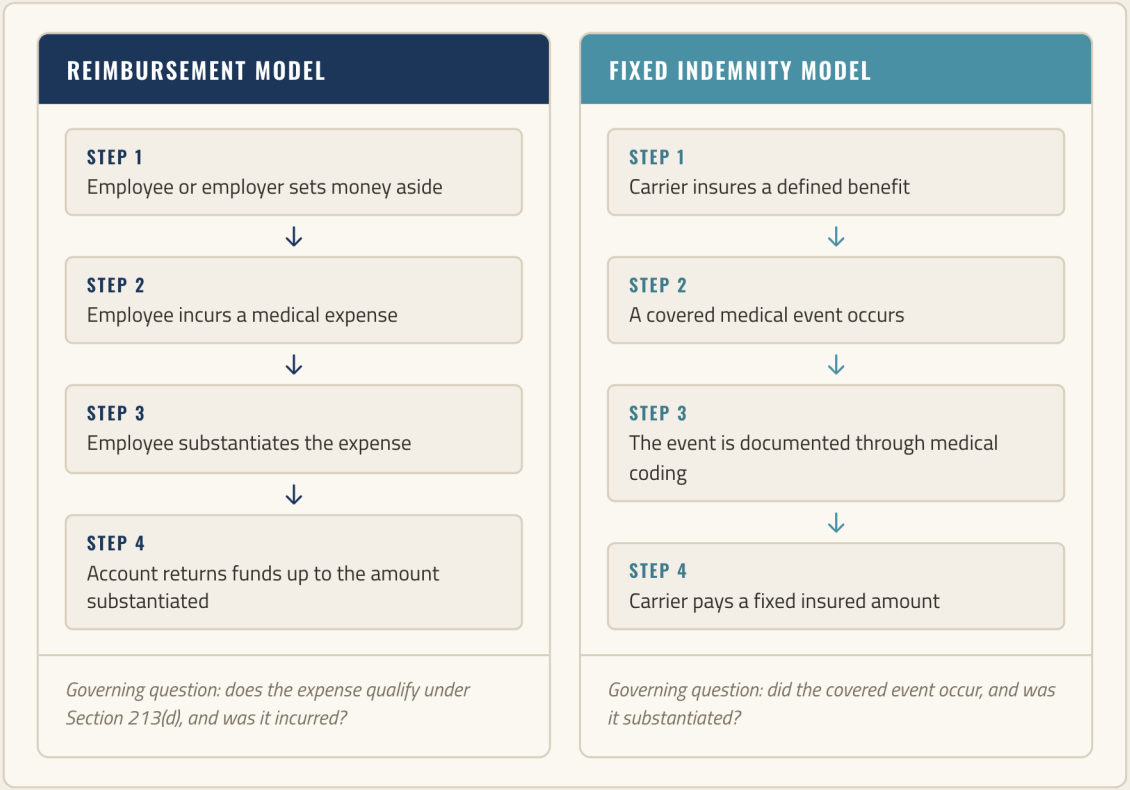
WHAT TRIGGERS A PAYMENT

The cleanest way to compare these models is to ask what triggers a payment under each, because the trigger is where the legal mechanics diverge.

In a reimbursement model, the trigger is a substantiated expense. The employee incurs a cost for medical care, submits documentation, and is reimbursed from an account that the employee or employer funded. The governing question is whether the expense qualifies as medical care under Section 213(d) and whether it was actually incurred. No qualifying expense, no reimbursement.[3]

In a fixed indemnity model, the trigger is a covered event. The carrier pays a fixed, predetermined amount when a defined medical event occurs and is documented, without regard to the size of any bill. The payment is insurance proceeds from an insurer that bears the risk of loss, not a return of the employee's own set-aside funds.[4]

FIGURE 1 · TWO TRIGGERS, TWO MECHANICS



IRC §213(d); 45 C.F.R. §148.220(b)(4); 29 C.F.R. §2510.3-1(j). Structural; the two models are parallel and equal in weight.

PROOF RAIL

Authority for this page.

3 **IRC §213(d)**
Definition of medical care; the reimbursement trigger.

4 **45 C.F.R. §148.220(b)(4); 29 C.F.R. §2510.3-1(j)**
Fixed indemnity paid per event, without regard to expense.

THE DIVIDING LINE

Expense reimbursed versus event indemnified determines who owns the money, who bears the risk, and who can use it.

THE REIMBURSEMENT FAMILY

HSA, FSA, HRA, AND THE POP ELECTION

The reimbursement vehicles share a logic but differ in funding, ownership, and constraint. The health savings account is employee-owned and portable, available only to an employee enrolled in a qualifying high-deductible plan, with a balance that carries forward indefinitely.[5] The health flexible spending account is funded by salary reduction, makes the full election available from day one, and is subject to the use-or-lose rule.[6]

The health reimbursement arrangement is employer-funded and employer-owned; unused amounts generally do not vest in the employee.[7] The premium-only election is the narrowest of the group: a Section 125 election that lets an employee pay a premium with pre-tax dollars. It holds no balance and pays no benefit.[8] Across all four, money must go in before anything comes out, and what comes out is capped at what was substantiated.

FIGURE 2 · THE REIMBURSEMENT FAMILY, COMPARED

	HSA	HEALTH FSA	HRA	POP ELECTION
WHO FUNDS IT	Employee, pre-tax or deductible	Employee, salary reduction	Employer	Employee, premium only
WHO OWNS IT	Employee, portable	Employer plan until reimbursed	Employer	No balance held
2026 IRS LIMIT	$4,400 self / $8,750 family · +$1,000 at 55+	$3,400 salary reduction · $680 carryover	Employer-set	Limited to the premium
FORFEITURE RISK	None, carries forward	Use-or-lose, carryover or grace period	Unused generally does not vest	None
STRUCTURAL GATE	HDHP enrollment · 2026 min. deductible $1,700 self / $3,400 family	Plan participation	Employer funding decision	A premium already paid
TAX BASIS	§223(a),(e),(f)	§125; §125(i) limit	§§105(b), 106; Notice 2002-45	§125(d)

Rev. Proc. 2025-19 (HSA and HDHP figures); Rev. Proc. 2025-32 (FSA figures); IRC §§125, 223; Notice 2002-45. Dollar figures are 2026 statutory limits set by the Internal Revenue Service, not contributions or outcomes for any employer or employee.

PROOF RAIL

Authority for this page.

5 **IRC §223(a),(b),(c),(d); Rev. Proc. 2025-19**
HSA eligibility, limits, HDHP requirement, portability.

6 **IRC §125(i); Rev. Proc. 2025-32; Treas. Reg. §1.125-5(c)**
FSA salary-reduction limit, carryover, use-or-lose.

7 **Notice 2002-45; 84 Fed. Reg. 28888**
HRA funding and ownership; ICHRA and EBHRA variants.

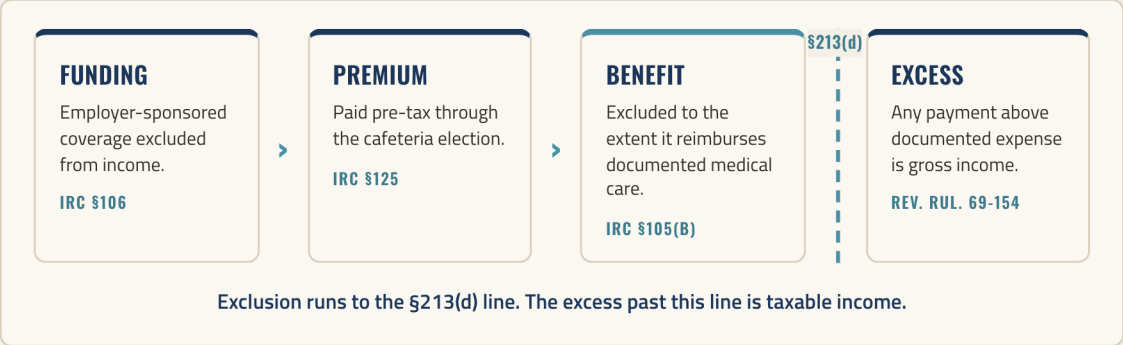
8 **Prop. Treas. Reg. §1.125-1(a)(2); IRC §125(d)**
Premium-only election; holds no balance.

THE FIXED INDEMNITY MECHANIC

A CHAIN OF CODE SECTIONS, SETTLED FOR DECADES

The fixed indemnity benefit reaches the employee through a chain that has been settled for decades, and the chain is worth tracing because its defensibility rests on each link.

FIGURE 3 · THE EXCLUSION CHAIN



IRC §§106, 125, 105(b), 213(d); Rev. Rul. 69-154. The §213(d) line is a legal boundary, not a warning. Structural.

Section 105(b) is the documentary hinge: the favorable treatment depends on a real, substantiated medical event tied to documented medical care, which is why the program is administered against standard medical coding rather than paying cash on a self-reported event.[9] The arrangement is fully insured, an A-rated carrier bearing the risk of loss, and is offered on a noncoordinated basis, which preserves its status as an excepted benefit.[10]

PROOF RAIL

Authority for this page.

9 **IRC §105(b); §213(d); Rev. Rul. 69-154**
Exclusion to the extent of documented medical care; excess is income.

10 **Helvering v. Le Gierse, 312 U.S. 531 (1941)**
Insurance for tax purposes requires risk shifting and distribution.

11 **IRC §9832(c)(2); 29 C.F.R. §2510.3-1(j)**
Noncoordinated fixed indemnity as an excepted benefit.

THE HONEST CORE

The benefit is not free of tax. The exclusion is claimed only to the extent of documented expense.

WHERE EACH ONE FITS

THE STRUCTURE FOLLOWS THE WORKFORCE

The comparison resolves into a single practical question: which structure fits the workforce in front of you. The answer turns on cash flow, on participation, and on the cost of turnover, and different workforces call for different structures.

For a salaried, stable, higher-income workforce, the account models work as designed: these employees can fund a health savings account, absorb the high deductible it requires, and treat it as a long-term portable vehicle. For an hourly, high-turnover, or contingent workforce, the same models reach fewer people and serve them less well, for reasons that are structural rather than a matter of enrollment effort.[12]

FIGURE 4 · WHICH STRUCTURE FITS WHICH WORKFORCE

WORKFORCE A **SALARIED, STABLE, HIGHER-INCOME**	**BEST FIT · THE REIMBURSEMENT FAMILY** Employees can fund an account, absorb a high deductible, and manage a balance. A fixed indemnity benefit sits as a supplement rather than a substitute.

The structure follows the workforce. A mixed workforce may use both.

WORKFORCE B **HOURLY, HIGH-TURNOVER, OR CONTINGENT**	**BEST FIT · THE FIXED INDEMNITY BENEFIT** Pays an insured amount on a documented event. Requires no discretionary income, no high-deductible enrollment, no annual spending forecast, and carries no forfeitable balance.

Derived from the mechanics in Sections 3 and 4; IRC §§223(c), 125; Treas. Reg. §1.125-5(c). Neither workforce or structure is superior in the abstract.

PROOF RAIL

Authority for this page.

12 **IRC §223(c); Treas. Reg. §1.125-5(c)**
HDHP gate on the HSA; use-or-lose risk on the FSA.

BUILT FOR THE GAP

The fixed indemnity benefit was built for the workforce the account models reach least well, not for every employer.

THE TAX TREATMENT, SIDE BY SIDE

ON ONE AXIS, WITHOUT OVERCLAIMING

Because the tax treatment is where buyers are most often misled, it is worth setting the models side by side on that single axis, in plain terms.

The health savings account offers the most complete treatment of the reimbursement group: contributions pre-tax or deductible, growth untaxed, qualified distributions untaxed.[13] The flexible spending account and the premium-only election deliver a pre-tax contribution that reduces income and payroll-taxable wages, the FSA bounded by use-or-lose and the POP limited to the premium it shelters. The health reimbursement arrangement delivers employer-funded reimbursements excluded under Sections 105 and 106. In each case the favorable treatment attaches to a return of set-aside funds against substantiated expense.[14]

THE FIXED INDEMNITY BENEFIT, TAXED AS INSURANCE

Premiums are paid pre-tax under the cafeteria election, and benefit payments are excluded from gross income to the extent they reimburse documented Section 213(d) expense. The bounding feature is the excess benefit rule: the exclusion runs only to the extent of documented expense, and the excess is gross income. This is the honesty that distinguishes a defensible program from the arrangements the Service has challenged, and it is why the program is never presented as paying cash free of tax.

More favorable in one respect, more bounded in another. The premium is sheltered like the others, but the benefit is insurance proceeds rather than a return of the employee's own balance, and the Section 213(d) boundary is stated plainly rather than papered over.[15]

PROOF RAIL

Authority for this page.

13 **IRC §223(a),(e),(f)**
Pre-tax or deductible contributions, untaxed growth and qualified distributions.

14 **IRC §§105(b), 106(a), 125(a),(f); §3121(a)(5)(G)**
Reimbursement exclusions; pre-tax salary reduction excluded from FICA wages.

15 **IRC §§106(a), 125(a), 105(b), 213(d); Rev. Rul. 69-154**
Indemnity premium pre-tax; benefit excluded to the §213(d) line; excess is income.

THE DISTINCTION

A reimbursement account is a financial accumulation tool. A fixed indemnity benefit is insurance, taxed and regulated as insurance.

THE FRONTIER

THE ONE QUESTION THAT REMAINS OPEN

One question on this axis is genuinely open, and the standard of this series is to name it rather than resolve it by assertion. Whether the includable excess, beyond being gross income, is also wages subject to withholding and to Social Security and Medicare tax, is a question no court has decided for an arrangement that pays on a substantiated medical event.

The stronger reading of the statute is that it is not wages. Wages are remuneration for services performed, and an amount paid because a medical event occurred is not paid in return for services.[16] For the contrary result to prevail, several specific things would each have to happen.

1. The question would first have to be **litigated**.
2. A court would have to adopt the wage treatment the Service has asserted only in a **non-precedential Chief Counsel Advice**, guidance the agency's own manual treats as binding on no one.[17]
3. The court would have to read the wage statutes **against the ordinary meaning** of remuneration for services.
4. And it would do so after **Loper Bright** withdrew the deference that once would have eased the agency's reading.[18]

THE RECORD IS NOT ONE-SIDED

In 2023 the Service proposed an amendment to the Section 105(b) regulation that would have settled the question against the taxpayer. It did not finalize that amendment in the April 2024 final rule, but cautioned that the absence of a final rule should not be read as approval of current practices. Those facts keep the question open.[19]

PROOF RAIL

Authority for this page.

16 **IRC §3401(a); §§3121(a), 3306(b)**
Wages defined as remuneration for services performed.

17 **C.C.A. 202323006; IRC §6110(k)(3); IRM 33.1.2**
A chief counsel advice may not be cited or used as precedent.

18 **Loper Bright Enterprises v. Raimondo, 144 S. Ct. 2244 (2024)**
Courts exercise independent judgment; no deference to agency reading.

19 **T.D. 9990, 89 Fed. Reg. 23338; 88 Fed. Reg. 44596**
Declined to finalize the §1.105-2 amendment; no inference of approval.

CONCLUSION

MATCHED, NOT RANKED

The models compared in this paper are not ranked. They are matched to the workforces they fit. The reimbursement family returns set-aside money against substantiated expense, and it works best for employees who have money to set aside and the stability to manage it. The fixed indemnity benefit pays an insured amount on a documented medical event, funded through a cafeteria election rather than a personal balance, and it reaches the hourly, high-turnover, and contingent employees the account models reach least well.

The legal mechanics follow that divide. The reimbursement vehicles are governed by the rules of the accounts that hold the money. The fixed indemnity benefit is governed as insurance, through an exclusion chain that runs from Section 106 funding to the Section 105(b) exclusion, bounded at the Section 213(d) line, with the excess reconciled under the excess benefit rule. That boundary is the discipline of the design, and it is stated here without softening. The benefit is not free of tax, and the program is administered so that the exclusion is claimed only against documented expense.

Where the law is settled, this paper has said so. Where one question at the frontier remains open, it has named the question, stated the better reading of the statute, mapped what a contrary outcome would require, and conceded the facts that cut both ways. For a review of any of these structures against an employer's own workforce and facts, The Optiv Group will coordinate with the employer's legal and tax advisors.

The structure should follow the workforce, not the other way around.

CONTACT INFO@OPTIVHEALTH.US · 833-MY-OPTIV

SUPPORTING AUTHORITY

SOURCES AND DISCLOSURES

STATUTE AND REGULATION

IRC §§105(b), 106(a), 125 incl. (a),(d),(f),(i), 213(d), 223 incl. (a),(b),(c),(d),(e),(f), 3401(a), 3121(a) incl. (a)(5)(G), 3306(b) incl. (b)(5)(G), 6110(k)(3), 9832(c)(2). Treas. Reg. §§1.125-1, 1.125-5(c); Prop. Treas. Reg. §1.125-1(a)(2),(e). 29 C.F.R. §2510.3-1(j); 45 C.F.R. §148.220.

IRS GUIDANCE AND RULINGS

Rev. Rul. 69-154, 1969-1 C.B. 46; Notice 2002-45, 2002-2 C.B. 93; Notice 2013-71, 2013-47 I.R.B. 532; Rev. Proc. 2025-19; Rev. Proc. 2025-32; IRS Chief Counsel Advice 202323006 (May 9, 2023); Internal Revenue Manual 33.1.2.

RULEMAKING RECORD AND CASE LAW

Proposed Rule, 88 Fed. Reg. 44596 (Jul. 12, 2023); Final Rule, T.D. 9990, 89 Fed. Reg. 23338 (Apr. 3, 2024); Health Reimbursement Arrangements and Other Account-Based Group Health Plans, Final Rule, 84 Fed. Reg. 28888 (Jun. 20, 2019). Helvering v. Le Gierse, 312 U.S. 531 (1941); Loper Bright Enterprises v. Raimondo, 144 S. Ct. 2244 (2024).

The Optiv Group sponsors this paper and has a financial interest in the Optiv Advantage program; the analysis may not be independent, and this disclosure is made consistent with Federal Trade Commission guidance on commercial content. The contribution and deductible figures cited are 2026 statutory limits set by the Internal Revenue Service, verified against current guidance during preparation, and are not projected results for any employer or employee. The insurance carrier is anonymized throughout as an A-rated, state-licensed carrier. The Optiv Advantage is a fixed indemnity supplemental program; it is not minimum essential coverage and complements, not replaces, major medical. Indemnity payments are not free of tax. References reflect federal law as of June 2026 and are subject to change; state law is not addressed. This paper is informational only and is not legal or tax advice. Obtain advice from a licensed attorney and a tax professional on your own facts. Contact: info@optivhealth.us · optivhealth.us · (833) MY-OPTIV.