



HRA Quick Answer Sheet:

What is a Health Reimbursement Arrangement (HRA)?

A Health Reimbursement Arrangement is a tax-advantaged benefit that allows both employees and employers to save on the cost of healthcare.

HRA plans are employer-funded medical reimbursement plans. The employer sets aside a specific amount of pre-tax dollars for employees to pay for health care expenses on an annual basis. Based on the plan design, HRAs can generate significant savings in overall health benefits.

The primary requirements for an HRA are that (1) the plan must be funded solely by the employer and cannot be funded by salary reduction, and (2) the plan may only provide benefits for substantiated medical expenses.

HRAs may be designed in many fashions to suit the specific needs of the employer and employees. It is one of the most flexible types of employee benefit plans making it very attractive to most employers.

What are the Benefits to the Employer?

HRAs are most commonly offered in conjunction with a High Deductible Health Plan. As a rule, moving to a high deductible plan will result in reduced premium costs creating real savings on healthcare costs for the employer. HRA contributions may then be funded using the savings gained from the lower premium costs. Funding an HRA allows the employer to bridge the gap between the higher deductible and when the insurance coverage “kicks in” for their employees.

Most importantly, all employer contributions to the Plan are **100% tax deductible** to the employer, and tax-free to the employee.

Employers may establish what expenses the HRA funds may be used for; from as comprehensive as all health-related eligible expenses to as limited as emergency room expenses only. HRA plans are very flexible, enabling employers to control their own costs of healthcare while still providing a valuable employee benefit.

With an HRA, employee healthcare expenditures are visible and clear to both you and your employees, creating a greater understanding of the costs of healthcare. In addition, by providing employees more visibility to and control over their healthcare they become smarter healthcare consumers.

Studies show a usage rate of only 20-50% of healthcare coverage by employees, meaning that employers often pay health insurance premiums for employees who are not utilizing the coverage. An HRA allows employers to determine the best type of coverage for their employees based on the demographics of their employee group.

HRA plans may also cover retired employees (and their spouses and tax dependents). Employers may wish to consider an HRA as an alternative to more expensive traditional retiree health care.

Employee benefits, such as an HRA, enable employers to recruit and retain quality employees. An employer is viewed in a positive light by current and prospective employees because a benefit package is being provided with the employee's interest in mind.

What are the Benefits to the Employee?

Enrolling in an HRA provides two major advantages to employees, (1) a reduced health insurance premium resulting from the High Deductible Health Plan, and (2) availability of employer-sponsored funds that may be accessed to pay for medical expenses incurred prior to the insurance deductible being met.

Depending on the plan design, expenses that may be reimbursed from the HRA include: deductibles, co-payments, coinsurance, prescription medications, vision expenses, dental expenses, and other out-of-pocket health-related expenses.

HRA funds are contributed to employees on a pre-tax basis; therefore the funds are not taxable to the employee. Due to this, employees need not claim an income tax deduction for an expense that has been reimbursed under the HRA.

What are my Plan Design options?

HRAs are **very** flexible, allowing the employer to design their plan to meet the unique needs of the company and the employees. Common plan designs include:

- **Deductible, Co-pay, and Co-insurance:** All medical expenses that are applicable to the health plan's deductible, a co-pay amount, or a co-insurance amount qualify for reimbursement. Qualified expenses are those incurred by the employee or the employee's family. An Explanation of Benefits (EOB), showing evidence that the expense is applicable to the insurance deductible, is typically required for substantiation of request for reimbursement under this design.
- **Deductible:** Under this design all medical expenses that are applicable to the deductible of the health plan qualify for reimbursement. This plan design does not include co-pays or co-insurance amounts. Qualified expenses are those incurred by the employee or the employee's family. An EOB is also typically required for substantiation of request for reimbursement under this design.
- **All Uninsured Medical Expenses:** All out-of-pocket medical expenses (uninsured costs) are eligible under this plan design. This includes deductibles, co-pays, coinsurance, dental, vision, prescription, and other out-of-pocket medical expenses. These expenses can be for the employee and the employee's family. An EOB, copy of a receipt, or copy of a bill identifying the date of service, amount of service, and the name of the service provider are typically used to substantiate requests for reimbursement under this design.

- **Specific Expenses Only:** Plans may be designed to cover dental expenses only, orthodontia expenses only, vision expenses only, prescription medical expenses only, and/or other specified expenses. A copy of a receipt or copy of a bill identifying the date of service, amount of service, and the name of the service provider are typically used to substantiate requests for reimbursement under this design.

Can I use a Spending Account Card with an HRA?

Yes, if the plan design is set up to cover items applicable to card usage, for example

- Co pays,
- OTC items and medications *
- Prescriptions
- Vision Exams and Hardware
- Dental Expenses

*Pursuant to Sec. 9003 of the Affordable Care Act; effective January 1st, 2011 reimbursements for over-the-counter medicines through a health FSA, HRA, or other employer-provided accident or health plan may not be excluded from the employee's gross income. This does not include amounts paid for medicine or a drug if such medicine or drug is a prescribed drug (determined without regard to whether such drug is available without a prescription) or is insulin.

What are my Plan Year (Period of Coverage) options?

Typically, employers choose to run the HRA concurrent with their health insurance plan year, but this is not mandatory; the HRA plan year may be run independent of the health insurance plan year. Short plan years are generally available as well, depending on the options provided by the plan administrator.

Can the Balances Carryover?

With an HRA, unused fund amounts may be carried over from year to year. This differs from a Flexible Spending Account which maintains the "use-it-or-lose-it" rule.

The employer has full discretion over how the carryover is managed. They may choose to allow the employee to keep all unused funds for use in later years, keep only a portion of unused funds, or forfeit all remaining unused funds after the Plan year is complete.

How do I get Reimbursed?

All requests for reimbursement under an HRA must be substantiated. The most common means of substantiation is the Explanation of Benefits (EOB) statement provided by the employees' health insurance provider after a medical expense has been incurred.

Since the HRA typically pays for out-of-pocket expenses up to the amount of the health insurance deductible, employees must reference the EOB to see what has been covered by insurance and what has not for a specific medical expense occurrence. They then request reimbursement for the portion of the expense that was not paid by their insurance plan.

For other out-of-pocket expenses, a copy of a receipt or bill identifying the date of service, amount of service, and the name of the service provider is normally required to substantiate reimbursement.

Does and HRA have to go through Discrimination Testing & HIPAA rules?

Standard non-discrimination rules apply to an HRA. Plans must avoid discriminating toward any employee(s) regarding the parameters of the plan and how funds are allocated, and must ensure that all employees have similar access to a funded account.

HIPAA privacy rules also apply.

Coordination with a Flexible Spending Account?

An employer may choose to offer a Flexible Spending Account Plan (FSA) in conjunction with an HRA. An FSA is an *employee-funded* benefit that allows employees to set aside pre-tax funds to pay for medical expenses. FSA funds are contributed through salary-reduction, and the amount is determined by each participating employee.

Combining an FSA with an HRA allows employees to bridge the gap between the employer sponsored HRA and the health insurance plan.

In a situation where an incurred medical expense could be reimbursed from either the FSA or HRA, the employer or plan administrator will determine the “ordering rules” which determine which account the expense shall be reimbursed from first.

COBRA?

HRAs are subject to COBRA. Employees experiencing a qualified event must be given the opportunity for continued participation in the HRA offered by the employer. If an employee experiences a COBRA qualifying event and makes a COBRA election for the HRA, the employer determines what to charge the employee a premium in order to continue their participation.

At the beginning of the Plan year, the employer should establish a reasonable premium amount applicable to the HRA benefit being offered, this decision should take into account the benefit offered for single vs. family. As the premium is determined at the beginning of the Plan year, it cannot take into consideration an employee’s account balance at the time of a qualifying event.