



Health Reimbursement Arrangements (HRAs)

HRA BASICS

An HRA is an employer-sponsored plan designed to reimburse an employee and his or her spouse and/or dependents for eligible medical expenses as defined under IRS Code §213(d). The HRA model is a useful tool for employers hoping to manage rising healthcare costs, while providing a benefit to employees. HRAs are subject to IRS guidelines and regulations.

An HRA functions similarly to a Flexible Spending Account (FSA); however, only an employer can contribute funds into the account on behalf of the employees and an HRA has no “use-it-or-lose it” policy. Per IRS guidelines, all medical expenses paid with HRA funds require third-party substantiation.

EMPLOYER OPTIONS

The employer determines the percentage of unused HRA funds that can be carried over from year-to-year. The employer also has complete flexibility in determining the contribution amount. An employer may choose to fund HRA accounts as needed for reimbursement of claims, periodically (i.e., monthly or quarterly) or with a lump-sum contribution for the annual amount.

Although employers must offer COBRA to terminated employees, an employer can also offer an HRA account spend-down program as an alternative. The spend-down option allows employers to use the money left in their HRAs until it is exhausted.

HRA OPTIONS

HRAs may be offered on a stand-alone basis or in conjunction with a high-deductible health plan (HDHP) or an FSA. When determining which plans to offer, employers should carefully consider all options to ensure full tax advantage and compliance with IRS regulations.

STAND-ALONE HRA

A stand-alone HRA may be designed to reimburse one or more of the following:

- Out-of-pocket medical expenses as designated by IRS Code §213, such as copayments, deductibles and medical expenses that are not covered by the employer's major medical plan (excluding reimbursement for health insurance premiums);
- Dental or other specified out-of-pocket medical expenses (as determined by the employer);
- Health insurance premiums (A.K.A. “Premium Reimbursement Arrangement” or PRA).

A stand-alone HRA may limit participation to selected employees as long as the participation criteria is not in violation of nondiscrimination rules.

INTEGRATED HRA/HDHP

In an integrated HRA/HDHP arrangement, an employer offers employees a major medical plan with a high deductible and gives participants access to an employer-funded HRA with an annual limit. HRA funds can be used to pay copayments, deductibles and other out-of-pocket medical expenses that are not covered by the HDHP. Expenses paid with HRA funds may qualify for negotiated provider discounts, like under the HDHP.

The major medical plan that forms part of the HRA/HDHP arrangement is not required to have a particular deductible level or out-of-pocket limit.

INTEGRATED HRA / FSA

The HRA is not part of the cafeteria plan and may be offered in conjunction with an FSA. When HRAs and FSAs are implemented in conjunction with each other, HRA accounts traditionally must be exhausted before the participant may use FSA contributions for reimbursement of eligible expenses. However, the payout order is determined by the employer.