HSA or HRA? Why Employers Shop For HSAs and Buy HRA Plans

President Bush has aggressively promoted Health Savings Accounts, or HSAs, as one solution to the high cost of healthcare. However, more employers are discovering on their own that Health Reimbursement Arrangements, or HRAs, are a better solution. Why? The HSA will cost companies more than an HRA; it's simple economics. Interestingly the HRA has been kept from the spotlight by the current administration. Read on to learn why.

(PRWEB) June 15, 2005 - Last year the average annual cost for health insurance for an employer-sponsored plan reached $3,695 ($308 month) for single coverage and $9,950 ($829 month) for family coverage. Based on current increases, those average costs are expected to double in the next four years to $7,390 for single coverage ($616 month) and $19,900 ($1,658 month) for family coverage. Traditional forms of health insurance are becoming too expensive to be practical. As a result, the growth of HRA plans has been significant. By 2005, approximately 2.6 million individuals were covered by HRAs, far outnumbering those using HSAs, according to publisher Atlantic Information Services.

Why have HRAs been kept from the public spotlight by the current administration? President Bush's agenda is to move the country toward an "ownership society," where individuals have more financial responsibility for their own retirement and healthcare decisions. HSA plans and personal retirement accounts fit the agenda, while the HRA does not. If you want an HRA, you have to learn about it on your own.

The media, in this case, has simply been parroting the President's agenda because they haven't recognized what employers by the thousands are learning everyday. HRAs are a better solution because of lower cost and design flexibility.

In the following summary of the HSA verses the HRA you'll discover why employers shop for HSA Plans and actually establish HRA Plans.

With the Health Savings Account or HSA the employer offers a qualifying health plan with a minimum $2,000 deductible for families and a maximum deductible of $10,200. If the employer wants to cushion the effect of this new high deductible to the employees they must do so by making comparable contributions to all employees' HSA bank accounts, either in a lump sum or in monthly installments. From the employer's prospective, that money is spent even if the employee does not incur any deductible expenses. Only 25% to 30% of employees will have a deductible or portion of a deductible, but because of the HSA comparable contribution rule, the employer is required to fund every HSA account with the same amount. So where is the savings to the employer? It all went into employee health savings accounts. In reality, most HSA bank accounts will be depleted when the employee is faced with the first unbudgeted expense such as a car repair. Employees who spend HSA funds for expenses other than healthcare will pay taxes and a 10% penalty. Employers are quickly realizing their healthcare dollars will be funding all types of expenditures.

In contrast, the HRA offers the employer much more design flexibility. There are no rules about minimum and maximum deductible amounts; there are no comparability rules where the employer must give every employee the same amount of money; and the employer retains full control over the funds in the company's general asset account and only fund claims as they occur. For example, the employer wants to reduce premium cost by increasing the health insurance deductible from $500 to $1,500. The employer also wants to help cushion the effect of the new higher deductible to their employees. With the HRA the employer establishes the required Plan Document and distributes an SPD informing employees that the company has established an HRA that will reimburse deductible expenses in excess of $500 from $501 to $1,500, or up to $1,000 annually. The employer reduces the cost of health insurance and uses a portion of the savings to cushion the effect of the higher deductible to their employees. And, with the HRA, only those employees who actually incur a deductible expense in excess of $500 receive HRA funds. At the end of the plan year any unused funds revert back to the employer as those employees were not affected by the new high deductible plan. Although rollover of unused funds is allowed under an HRA most employers don't elect to do so with this type of Deductible Gap HRA.

The IRS requires employers who want to sponsor an HRA to have a formal plan document, and the Department of Labor requires every employee to receive a Summary Plan Description, or SPD, explaining the benefit in easy to understand language. Core Documents, Inc., http://www.CoreDocuments.com a nationwide leader in providing low cost IRS and DOL compliant Plan Documents for Section 125, POP, FSA and HSA Plans since 1997 have developed several HRA Plan Document kits that will allow any employer to establish an HRA Plan for a one-time fee of $299 first year, and $69 annually for document maintenance and ongoing consulting. Employers receive a notebook including: a Corporate Resolution to establish the Plan; a formal Plan Document; a Summary Plan Description (SPD); election and claim forms; and a complete administrative guide on everything needed to successfully establish and operate an HRA plan. Because deductible expenses are not regular events, internal administration is minimal.

See more information about Health Reimbursement Arrangements at http://www.CoreHRA.com.

Contact:
Gene Ennis
1-888-755-3373
email protected from spam bots

###

Contact Information

Gene Ennis
CORE DOCUMENTS, INC.
http://www.CoreDocuments.com
1-888-755-3373