



What Is A Health Reimbursement Arrangement, (HRA)?

Health Reimbursement Arrangement

HRAs have been referred to by many names over the last few years such as personal savings accounts, personal care accounts, defined contribution plans, or consumer-driven health care plans. The confusion ended in 2002, when the IRS finally issued guidelines for employer-provided medical reimbursement accounts and called it the Health Reimbursement Arrangement, or HRA.

HRA accounts can pay the same expenses as a Section 125 Medical Reimbursement Flexible Spending Account (FSA), however, unlike an FSA only employers can contribute to the HRA.

How Employers Utilize an HRA

Expenses not reimbursed by health insurance are one way employer groups are utilizing HRAs. With an HRA, the employer funds an account from which the employee is reimbursed for qualified medical expenses, such as co-pays, deductibles, vision care, prescriptions, long-term care, medical insurance, chiropractic care, and most dental expenses. Over-the-counter drugs that are medically necessary may also be reimbursed through an HRA. Reimbursements are not taxed to the employee, and are deductible by the employer.

The most common use of an HRA is in combination with a High Deductible Health Coverage (HDHC) Plan. HRAs can enhance a company's benefit package while helping to contain costs and boost employee morale. For example, you can combine your HRA with a higher-deductible health insurance plan. The employer benefits from reduced insurance costs, but the effect to the employee is cushioned with an HRA.

Plan Design Flexibility

HRAs provide employers with a lot of flexibility in Plan design. Limits can be set on types of services reimbursed by an HRA. Amounts contributed to an HRA can be in a lump sum or in increments throughout the year. This is in contrast to a Section 125 Medical FSA where the employer can be liable for the full amount on the first day of the plan. You can also choose to carry over unused funds to the next plan year, or have all or a portion of the unused funds forfeited at the end of the year.

In contrast to the "use-it-or-lose-it" rule of cafeteria plans, the employee gets to carry forward any unused HRA account funds. Depending on the design options elected by the employer, their employees may request reimbursement for medical expenses at the time services are rendered, accumulate them for reimbursement in the future, or save the funds in the HRA for retiree health benefits.

Who Can Establish an HRA Plan

Sole Proprietors, partnerships, regular corporations, S corporations, limited liability companies (LLCs), professional corporations, and 501(c)3 not-for-profits can establish an HRA plan.

Individuals that can not personally participate in an HRA include sole proprietors, partners, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation. Although these specific owners can not personally participate they can still sponsor an HRA and benefit from the write-off.



Plan Design Options

There are numerous plan design issues employers may wish to consider as they design their HRA.

The Comprehensive Plan - The Comprehensive HRA can cover any out-of-pocket medical expense that include but are not limited to dental expenses, vision expenses, co-pays, deductibles, medical expenses and health insurance premiums. The Comprehensive Plan may or may not be coupled with a high deductible health coverage or limited-benefit medical plan.

The Limited HRA - A Limited HRA will cover only specified out-of-pocket medical expenses such as prescriptions, dental, vision etc. and can be restricted to cover just one medical expense.

The Premium Reimbursement Arrangement (PRA) Plan - The PRA allows employers to reimburse only health insurance premiums including group sponsored insurance plans as well as individual health insurance policies outside the group, or long-term care insurance.

The Deductible Gap - The Deductible Gap HRA is designed to be coupled with a High Deductible Health Coverage and will pay for only items covered by the insurance policy it compliments. The employer benefits from reduced insurance costs, but the effect to the employee is cushioned with the Deductible Gap HRA.

Important HRA Facts

HRA Carryover Provisions. HRAs with a carryover feature can be offered on a tax-favored basis if the following conditions are satisfied:

- The HRAs must be funded solely with employer contributions;
- If high deductible health coverage is coupled with the HRA, the employee portion of the premium (i.e. family coverage premium) can be paid with pre-tax-salary deductions, however, in no event can the HRA itself be funded with pre-tax salary deductions or through a cafeteria plan;
- The HRA can only reimburse substantiated medical care expenses incurred by employees and their spouses and dependents; and
- Unused portions cannot be cashed out, though terminated employees can spend down their HRA balances after they terminate.

HRAs are Health FSAs with subtle differences. Many health FSA rules do not apply to HRAs, for example, unlike an FSA, HRAs can reimburse insurance premiums. Also, the HRA period of coverage is not required to be 12 months, like an FSA. And, the FSA rule limiting reimbursement to expenses incurred during the current period of coverage does not apply. This means expenses incurred during the current year can be reimbursed in the subsequent year so long as the individual was a participant when the expense was incurred.

HRAs Can Be Designed To Pay Last, After The Health FSA. Normally the health FSA must be the payer of last resort. Thus if an employee participates in both the HRA and a health FSA and they both cover the same expenses, the employee would first look to the HRA for payment increasing the likelihood the employee might have to forfeit unused health FSA funds. The good news is the IRS has authorized employers to design HRAs to require the health FSA to pay first, which will reduce health FSA forfeitures under the use-it-or-lose-it rule.

COBRA and HRAs. HRAs are generally subject to COBRA continuation coverage requirements unless the small employer exemption applies.



Nondiscrimination Rules and HRAs. HRAs can not discriminate in favor of highly compensated employees.

Prohibition on mid-year changes does not apply. The 12-month period of coverage and prohibition of mid year changes does not apply to an HRA.

Is a Trust Account Required? No, not by the Code, but possibly by ERISA (no trust is required if HRA reimbursements are made directly out of the general assets of the employer.

Are Account Earnings Taxable? This is not applicable if reimbursements are made directly out of the general assets of the employer. If the HRA is funded by a Voluntary Employee Beneficiary Association (VEBA) trust account, earnings are generally not taxable.

Form 5500 Reporting Requirement. Employer groups that cover more than 100 participants must file an IRS Form 5500 within seven months of the end of the plan year.

Plan Document Required. The Code requires that the plan be in writing and that every participant receives a Summary Plan Description, (SPD).



Expenses That Do Qualify for HRA Reimbursement

abdominal supports
abortion (legal)
acupuncture
air conditioner (when necessary for breathing)
alcoholism treatment
ambulance
Anesthetist
arch supports
artificial limbs
autoette (but not to/from work)
back supports
birth control pills and other contraceptive devices (by prescription)
blood tests and transfusions
braces
Braille Books & Magazines (extra cost only)
cardiographs
chiropractor
Christian Science Practitioner
contact lenses
cosmetic surgery (unless related to accident, birth defect or disease)
convalescent home (medical)
cost / maintenance of health-related home improvements
crutches
dental x-rays
dentures
dermatologist
diagnostic fees
diathermy
drug addiction therapy
drugs by prescription
elastic hosiery (by prescription)
exercise equipment (by prescription)
eyeglasses
fees paid to health institute prescribed by doctor
FICA and FUTA tax paid for medical care service
fluoridation unit
guide dog
gum treatment
gynecologist
healing services
hearing aids and batteries
heating devices (if therapeutic)
hospital bills and meals
hydrotherapy
inclinor
insulin treatments
invalid chair
lab tests and fees
nonprescription medication
obstetrician
oculist
operating room costs
ophthalmologist
optician
optometrist
oral surgery
organ transplant (including donor's expenses)
orthopedic shoes
orthopedist
osteopath
oxygen and oxygen equipment
pediatrician
physician
physiotherapist
podiatrist
postnatal treatments
practical nurse for medical services
premiums for free-choice medical plan
premiums for group clinical care plan
premiums for group hospital plan
premiums for health policy including long-term care insurance
premiums for hospitalization
premiums for medical care (paid & separately stated on school tuition bill)
premiums for medical service cooperatives
premiums for voluntary federal Medicare insurance
prenatal care
prescription medicines
prosthesis
psychiatrist
psychoanalyst
psychologist
psychotherapy
radium therapy
reclining chair (prescribed)
registered nurses
sickroom supplies
special auto equipment for the handicapped
special mattresses
special school or home costs for the physically and mentally impaired
spinal fluid tests
splints
sterilization
surgeon and surgery
telephone/TV for impaired
therapy equipment
transplants
transportation expenses (relative to health care)
tuition for child with learning disability
ultra-violet ray treatment
vaccines
vasectomy
vitamins (prescribed)
wheelchair
whirlpool bath (by prescription) and x-rays
weight loss programs under physician supervision



Expenses That Do Not Qualify for HRA Reimbursement

advance payment for services rendered next year
athletic club membership
car insurance premium (medical portion)
boarding school fees and child care
bottled water
commuting expenses of a disabled person
cosmetic surgery and procedures
cosmetics, hygiene products and similar items
diaper service
domestic help
funeral, cremation or burial expense
health programs offered by resort hotels, health clubs, and gyms
illegal operations and treatments
illegally procured drugs
maternity clothes
premiums for life insurance, income protection, disability, loss of limbs, sight or similar benefits
Scientology counseling
social activities
special foods or beverages
specially designed car for the handicapped other than an autoette or special equipment
stop-smoking programs
swimming pool
travel for general health improvement
tuition and travel expenses to send a problem child to a particular school



HRA Group Insurance Premium Savings Calculator

Employers by the thousands are utilizing a new strategy that combines high deductible health insurance with a HRA plan to substantially reduced insurance costs. The effect to the employee is cushioned with an HRA. See how much money this new strategy could save your company.

The HRA concept is simple; the employer considers using a high deductible group health insurance plan to reduce premiums and save money. To cushion the effect of the new high deductible to employees the employer establishes an HRA plan to pay the difference between the old deductible and the new high deductible. The HRA only pays if an employee actually has deductible expenses during the year. How many employees will have a deductible? Actuaries say 15% to 20% of employees will have a deductible expense each year.

Example: The group's old health plan had a \$500 deductible. To save money the employer buys a \$5,000 deductible plan. The employer then establishes a HRA plan that will pay deductible expenses from \$501 to \$5,000. The employee continues to pay the first \$500 of deductible expenses so nothing changes for the employee.

Here is a simple HRA savings calculator to determine if this concept will benefit your group:

Current/Old Group Insurance Premium:	\$ _____	A
New High Deductible Group Premium:	\$ _____	B
Group Premium Savings w/HRA (A - B):	\$ _____	C
100% HRA claim liability for all employees:	\$ _____	D
Anticipated HRA Claims at 20% (D X .20):	\$ _____	E
Premium Savings after HRA claims (C - E):	\$ _____	F

A – Is the group's current health insurance premium without an HRA.

B - Is the quote for a new high deductible health plan, i.e. \$1,500, \$2,000, \$3,000 or \$5,000.

C- Is the difference between the old premium and the less expensive new premium.

D – Is the potential liability if every employee had a 100% claim against the HRA. Example: The HRA has a \$4,500 benefit per employee (\$501 to \$5,000). There are 12 employee in the HRA plan, 12 employees X \$4,500 maximum HRA benefit = \$54,000.

E - Is the HRA actuarial anticipated claims based on the average group. We're using 20% for first year calculations. After a group has one year of experience they can estimate potential claims using their actual experience which will most likely be less than 20%. Example: If your total HRA plan liability if every employee had a 100% claim is \$54,000 you would multiply that number by 20% to get the expected claims expense for your HRA plan. (\$54,000 X 20%)

F - Is the net HRA savings to the group. Take the total insurance premium savings in C and deduct the expected HRA claims number in E which gives you the expected annual savings.



If you need help completing this application call 1-888-755-3373

HRA Plan Application



This is to request that Core Documents prepare a Resolution establishing a Health Reimbursement Arrangement (HRA), HRA Plan Document and Summary Plan Description, Administrative Forms, Administrative Handbook, and Resolution to Adopt the Plan.

Purchaser Information (i.e. Accountant, Agent, TPA, Payroll Company etc.)

First Name _____ Last Name _____

Company _____

Address _____

City _____ State _____ Zip Code _____

Phone _____ Fax _____

Email _____

Ship Document to: Purchaser Employer

Employer Information for Plan Documents

First Name _____ Last Name _____ (document signer)

Company Name _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

Email _____

Form of Business: S Corporation C Corporation LLC Partnership Sole Proprietorship
 Non-Profit 501(c)(3) Government Other: _____

Employer Federal ID#: _____ State of Inc.: _____ Number of Employees: _____

Legal Name(s) of Affiliated Company(ies) that will be covered by the Plan (if any):

- 1) _____
- 2) _____
- 3) _____
- 4) _____

Name of Plan Administrator: (Employer unless otherwise listed)

Name _____

Address _____

City _____ State _____ Zip _____

Phone _____

Type of Benefits To Be Offered:

- Medical Benefits Dental Benefits Vision Benefits Retiree Benefits Deductible Gap Benefits
- Prescription Benefits All IRS 213(d) Allowable Expenses Other _____

Effective Date will be:

- a) a new plan effective date as of (date) _____
- b) An amended / restatement of a previously established HRA Plan as of (date) _____
If this is an amended and restatement, state the effective date of the original plan: _____

Plan Year - The first plan year will be:

- a) a 12 consecutive month period beginning (date) _____ and ending (date) _____
- b) a short plan year beginning (date) _____ and ending (date) _____

Eligibility Requirements: All employees who work more than _____ hours per week.

Waiting Period: Employees can participate the first day of the month following _____ days of employment.

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