



**AMERICAN BENEFITS GROUP**

*Empowering Technology. Exceptional Service.*

**Health Reimbursement Arrangements Employers Guide**

## What is an HRA?

Authorized under Section 105 of the Internal Revenue Code, a Health Reimbursement Arrangement (HRA), is a type of self-funded, tax-favored program that may be offered either in conjunction with a health plan, or as a stand-alone plan to reimburse qualified out-of-pocket medical expenses.

HRAs consist of funds set aside by employers to reimburse employees for qualified medical expenses, just as an insurance plan will reimburse covered individuals for the cost of services incurred. The guidance provided by the Department of the Treasury makes it clear that health reimbursement accounts are not a new type of account designated within the Internal Revenue Code. Rather, employers qualify for preferential tax treatment of funds placed in a health reimbursement account in the same way that they qualify for tax advantages by funding an insurance plan. (Employers can deduct the cost of an insurance plan — and now a health reimbursement account — as a business expense under Internal Revenue Code section 162.)

Under a health reimbursement account, the employer provides funds, not the employee. If the employer chooses, unused funds may be rolled over at the end of the year, although this is not a requirement. Former employees, including retirees, can have continued access to unused reimbursement amounts. Health reimbursement accounts remain with the originating employer and do not follow an employee to new employment.

Although HRAs can be established in conjunction with any type of health plan, most often they are paired with a High Deductible Health Plan (HDHP). This pairing allows an employer to fund employees' individual Health Reimbursement Accounts using premium savings realized by switching from a traditional co-pay or low deductible health plan to a more economical high deductible plan.

## An HRA Provides More Choices and Control

Please note that with health care reform, there are additional factors to be taken into consideration when you are designing your HRA. Work with American Benefits Group to help you design a compliant HRA that meets your needs.

The HRAs flexibility allows employers to design their HRA plans with features that reduce healthcare expenditures, encourage employee engagement in their health care, while controlling out of pocket expenses.

There are many strategic deductible HRA design considerations which provide a great deal of flexibility.

- **Coverage tiers**—How much will be contributed for employees with single versus family, or two person coverage?
- **Deductibles**—Will the HRA have a deductible that must be met before it will reimburse covered expenses? Or will the HRA be available to reimburse covered expenses without requiring the employee to pay for a portion of these expenses first?
- **Covered expenses**—Will the HRA reimburse deductible expenses, co-pays, coinsurance? What about In-network expenses versus out-of-network expenses?

## What are Some Examples of HRA Plan Designs?

HRA plan designs are virtually limitless, but below are examples of frequently used plan designs. These examples are based on pairing an HRA with a High Deductible Health Plan that has a \$2,000 deductible with 100% coinsurance.

#### **Design 1 – Employee Pays First**

- Employee pays first \$1,000 of deductible
- Employer reimburses next \$1,000 from HRA
- Health plan pays remaining covered benefits

**Benefits:** Employer saves the most money. Encourages informed and responsible use of health care services.

#### **Design 2 – Employer Pays First**

- Employer reimburses first \$1,000 from HRA
- Employee pays next \$1,000
- Health plan pays remaining covered benefits

**Benefits:** Provides first-dollar coverage for employees. Can help assure transition to a high deductible plan

#### **Design 3 - Split Deductible**

- Employer deductible costs
- Health plan pays remaining covered benefits

**Benefits:** Offers a “middle ground” plan in which expenses are shared from the outset

#### **Design 4 – Divided Deductible**

- Employee pays first \$500 of deductible
- Employer reimburses next \$1,000 from HRA
- Employee pays next \$500 of deductible
- Health plan pays remaining covered benefits

**Benefits:** Employee deductible is divided in two. The initial employee portion can mirror the group’s current plan deductible.

### **How Will a Deductible HRA Benefit the Employer?**

Every employer is faced with increasing premiums for their health insurance, and a strategically designed HRA is a viable option to combat those rate increases. Pairing a high deductible health plan with an HRA has a number of advantages for an employer, including:

- Reduction of the health insurance premium. When you replace your low deductible health plan with a high deductible plan you can reduce your fixed premium expense by 30% or more.
- If employees incur fewer medical expenses than the amount you made available to them in the HRA, the employer keeps the savings.
- Opportunity to reduce costs at renewal, since employees will have an incentive to make more informed decisions about their health care.
- Reimbursements from the HRA are tax deductible and tax free to employees.
- Reimbursements may be made from your business’s general account when medical expenses are incurred, which allows for greater control of cash flow. There is no pre-funding of the HRA account required.
- If an employee’s employment is terminated, the employer can retain ownership of the unused HRA funds.
- Employer control and flexibility in designing the HRA. You can specify the terms of your HRA.

### **How will a Deductible HRA Benefit the Employee?**

Pairing a high deductible health plan with an HRA has a number of advantages for an employee, including:

- Protection against catastrophic medical costs.
- HRAs are employer-funded and depending upon the plan design, the employer may provide first dollar benefits coverage through the HRA.
- Tax-free reimbursements of qualified medical expenses.
- Employees are more involved in their health care and make more informed spending decisions.
- Employees can save money when you move to a higher deductible plan with an HRA. If employees currently pay for a portion of their premium, you can reduce the amount they pay.

## **About American Benefits Group**

American Benefits Group (ABG) is a wholly owned subsidiary of NFP, Inc., a powerful, national partnership of over 180 owned and 350 affiliated independent corpo-rate benefits consulting and diversified financial service firms that provide informed and innova-tive benefits strategies customized for over 40,000 employers of all sizes. As the national platform partner for NFP, Inc.'s Benefits, American Benefits Group provides Flexible Spending Accounts, HRA, HSA, Section 132 Transit, and COBRA & Direct Premium Billing administrative services to the employer clients of NFP companies nationwide.

## **Unmatched Expertise**

Our professional benefits administrative staff is knowledgeable in every aspect of employee benefits plan design, compliance and reimbursement account administration. All of our administration team members are professionally certified and receive continuous advanced training. With over 100 years of combined industry experience in Cafeteria Plans and Flexible Spending Accounts and COBRA administration, American Benefits Group's team is dedicated to sharing our expertise with you and your employees.

## **A Concierge and Boutique Service Model**

Every employer client works with a dedicated account service team that manages all aspects of their program. Your account service team pays careful attention to understanding the needs of your company, your participants and the scope of your plan.

***Our mission is to define a level of service that is unmatched in the industry today, and exceeds our client's expectations in every way.***



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