

Employer FAQ: Health Reimbursement Arrangements

What is an HRA?

Health reimbursement arrangements (HRAs) are tax-advantaged accounts that are funded with employer dollars to pay employee expenses not covered by their health plan. The employer outlines what expenses will be covered in the HRA summary plan document within the limitations outlined by the Internal Revenue Service Publication 969. For example, an HRA could pay all eligible medical expenses, including premiums for health and long-term care insurance, or the HRA could be limited to cover only dental or vision expenses. Although an HRA can have an option to carry forward unused funds to the future or for retirement, an employee cannot take their HRA funds to a new employer.

What are the benefits of offering an HRA to our employees?

You are most likely considering an HRA because you have decided to lower your health plan expenses by providing your employees a lower premium plan. The HRA will provide financial assistance to cover their eligible out-of-pocket healthcare expenses.

An HRA offers a multitude of plan design options, allowing you to control the total cost of offering the account; and since HRAs are not pre-funded and are instead a promise-to-pay arrangement, you only pay when an employee files a claim.

Can I offer an HRA alone without a health plan?

It was a growing trend in the recent past to offer employees an HRA to allow them to purchase conventional insurance in the individual, non-group market with pre-tax dollars. This approach is no longer possible under section 2711. Although further guidance has not been issued, stand-alone HRAs will not be considered to be integrated coverage that complies with the annual dollar limit required by the ACA.

What is the tax benefit for me as an employer?

Employers can deduct the amount of their contributions. Since the account is funded on a "notional" basis like a line of credit, the employer can take the deduction only when the amounts are actually paid out.

Is there a tax benefit for my employees?

Yes. HRA funds are contributed to employees on a pre-tax basis; therefore, disbursements are not included when calculating taxable income. For this reason, employees can not claim an income tax deduction for an expense that has been reimbursed under the HRA.

What happens to the funds if my employee leaves the company?

HRA funds are not portable. With the HRA, you have pledged to pay the funds if needed; therefore any unused funds remain with you, the employer.

How much can an employer contribute to an employees' HRA?

You may contribute any dollar amount you choose, above a minimum annual commitment of \$250 per employee. This commitment is a promise-to-pay, with funds allocated only if and when an eligible claim is incurred. This employer commitment will engage the employee in the consumer-directed philosophy of bringing price awareness and control over their healthcare spending.

Do HRA contributions have to be made in equal amounts each month?

An HRA can be designed to make the HRA funds available to eligible employees on Day 1 or in installments throughout the year. Either way, the employer always holds the money until qualified expenses are incurred and then reimbursed.

Can employees contribute to an HRA?

No. Only employers may contribute funds to an HRA. If you would like to give your employees the opportunity to save for additional medical expenses tax-free, consider offering an FSA in conjunction with an HRA.

As an employer, do I have to contribute the same amount to every employee's HRA?

Yes, according to Federal regulations, employer contributions must be comparable, that is they must be in the same dollar amount for all employees with the same category of coverage. You can vary the level of contributions for full-time vs. part-time employees. There may be other variations around comparability. Consult your broker, consultant, or tax advisor for additional information.

Can owners or partners participate in an HRA?

No. According to IRS guidelines, anyone with two-percent or more ownership in a schedule S corporation, LLC, LLP, PC, sole proprietorship, or partnership may not participate. C-corporation owners and their families are eligible to participate in HRA plans because they are considered to be W-2 common law employees.

When does the HRA begin to pay for an employee's expenses?

The employer has the choice of allowing the HRA to pay before the employee meets any deductible, or it can be set up so that the employee has to meet a certain amount of out-of-pocket expense before the HRA begins to pay.

Is the HRA allocation based on a calendar year or a rolling plan year?

An HRA can be for a calendar year, plan year, or other defined periods. HRAs are flexible in design so that employers can offer an HRA that best complements their overall employee benefit goals.

Can I, as employer, choose proration for new hires and family status change?

Yes. You can prorate contributions for new hires and family status changes that occur throughout the year.

Can an employee covered by a spouse's plan still participate in your group's HRA?

Yes. However, there can be no "double dipping," or reimbursement from both plans for the same expense as explained in Revenue Ruling 2002-03 and 2002-80. The spouse of an employee may also be covered by your group's HRA if they wish as part of family coverage.

Are high-deductible health plans required in order to offer an HRA?

No. The HRA can be paired with any health plan; there are no limitations.

Can the HRA allocation be set up on a 4-tier structure?

Yes. You may set up the HRA allocation for employee, employee+spouse, employee+child(ren), or family.

Can I, as an employer, define the HRA rollover amount?

Yes. You choose how your "fund rollover" will be structured, which is then outlined in the Summary Plan Documents that are shared with employees.

Here's how HRA fund rollover typically works: at the end of the plan year, participants will have a certain amount of time ("run-out period") to submit claims for services incurred during the prior year. At the end of the run-out period, or a different date set by you, all or a portion of the participant's remaining funds may rollover to the next plan year or to a carryover account. You may opt to set the following rules:

- 1) A percentage of remaining funds may rollover, such as 50%. *So, if there is a \$512 balance on the fund-rollover date, you can rollover \$256.*
- 2) A maximum amount may rollover, such as \$250. *Taking the example above, only \$250 would rollover of the remaining \$512.*
- 3) A percentage up to a maximum, such as 50% up to \$250. *Again, \$250 would rollover, using the example above. If you had \$300 remaining, then only \$150 would rollover (50% of \$300).*
- 4) All remaining funds may rollover to the next plan year. *In this case, all \$512 would rollover.*