

Health Reimbursement Arrangement (HRA)

- Employer-funded arrangement provided to employees for reimbursement of employer-specified medical expenses. Authorized by Section 105 of the Internal Revenue Code.
- Specified Expenses can include co-pays, deductibles, wellness and more.
- Combine with high-deductible health plan.

HRA Advantages for You, the Employer

- Adopting a higher deductible plan results in immediate premium savings.
- Pre-funding not required
- Expenses paid from HRAs are 100% tax-deductible.
- Unused funds may be retained by the employer.
- Flexibility in choosing which medical expenses to reimburse
- Improved value proposition for attracting and retaining employees

HRA Advantages for Your Employees

- Employees reimbursed for medical expenses
- Lessens the impact of higher deductible
- Insurance premium savings opportunity
- Reimbursements are 100% tax-free.
- Reimbursement process is simple.

HRA Advantages

- Lower overall premium
- Promotes consumer-driven health care
- Employees responsible for first-dollar expenses will be smarter in making health care decisions.

How HRAs Work

- HRAs are used in combination with high-deductible group health plans.
- The employer funds the HRA.
 - Predetermined dollar amount for each employee
 - Funded as expenses are incurred, monthly, etc.
- The funds are used to pay for qualified expenses not covered by the employer.
 - Can include co-pays, deductibles, medical expenses not covered by the insurance plan, etc.
 - IRS guidelines

HRA Participation Guidelines

- Available to any size group
- Current and former employees
- Spouse and dependents of deceased employees
- No sole proprietors, partners, owners of 2% or more of Subchapter S corporations or independent contractors.

HRA Structure

The employer has flexibility in determining the design of the HRA, including:

- Eligibility requirements
- Contribution levels
- Funding options
- Reimbursement schedule
- Order of payments: HRA, out-of-pocket and group health insurance payments
- Reimbursable expenses
- Reimbursement methods
- Rollover and accumulation options

Eligibility Requirements

- You can establish an hourly requirement.
- You can establish a waiting period.
- Plan may not discriminate in favor of highly compensated employees.

Contribution Levels

Employer may determine contribution levels for the HRA based on various factors, including:

- Premium reduction provided by new group health plan design.
- Estimated utilization of the HRA
- Employee coverage levels (e.g. \$1,000 for single, \$2,000 for family)*

** Assuming \$2,000 single deductible and \$4,000 family deductible*

Funding Options

- The HRA can be an “unfunded” plan. This means that reimbursements are made by the employer and the unused amounts do not belong to the employee.
 - Money is not legally required to be in a trust or set aside in a separate account.
 - Direct debit or ease in transferring account funds
- The HRA can be a “pre-funded” plan.

Reimbursement Schedule

The employer can choose the reimbursement schedule

- Pre-fund or reimburse as scheduled
- Choose to have reimbursements paid out on a weekly, monthly, quarterly or semi-annual basis.

Order of Payments

The employer establishes a \$2,000 deductible plan and establishes a \$1,000 HRA

- The employee pays the first \$1,000 of health care expenses and the HRA fills the gap between the employee portion and the high deductible.
- The employer pays the first \$1,000 of health care expenses through the HRA and the employee pays the next \$1,000, filling the gap between the HRA and the high deductible.
- The employer pays the first \$250 to provide some level of first-dollar benefit, the employee pays the next \$1,000 and the employer the next \$750 (at which point the \$2,000 deductible is met).

Reimbursable Expenses

Creative uses beyond high-deductible health plans

- Reimburse only for network deductibles to reduce non-network usage.
- Remove a coverage from the plan and self fund through an HRA (i.e., prescription drug coverage)
- Reimburse for wellness expenses.
- Reimburse for dental/vision expenses.

Rollover and Accumulation Options

- Employer decides whether to allow employees to accumulate unused amounts from one plan-year to the next.
- Employer decides whether to cap the amount that may be carried forward or the total amount that can be accumulated.

Employees do not have the ability to withdraw unused funds in cash.