



HRAS: WHAT ARE HEALTH REIMBURSEMENT ARRANGEMENTS?

The ever-rising cost of healthcare is a major concern for most employers. In response, the IRS recently defined the rules for the establishment of Health Reimbursement Arrangements (HRAs). Usually coupled with a high deductible healthcare plan, an HRA allows employers the ability to enhance their employee benefit package while still achieving their goals of lowering health insurance costs or maintaining costs at current levels.

1. What Is A Health Reimbursement Arrangements (HRA)?

HRAs, also referred to as consumer-driven healthcare plans, are employer-funded accounts used to reimburse medical expenses to employees. Similar to a Section 125 Healthcare Flexible Spending Account (FSA), HRAs reimburse medical expenses defined in IRC Section 213 (d) as "medically necessary" including co-pays, deductibles, office visits, vision care expenses, prescriptions, dental expenses and health premiums under COBRA. However, unlike Healthcare FSAs, the "use-it-or-lose-it" rule does not apply to the HRA, allowing unused funds to be carried forward (contingent upon the employer's plan design). These employer-provided funds are untaxed at the employee level and tax deductible at the corporate level.

2. What About Satisfying The Davis Bacon Act, Service Contract Act Or State Prevailing Wage Laws?

Employers that perform services for public entities can fund, on an hourly basis, their HRAs into a welfare benefit trust and receive "credit" under the applicable law. These employers can provide an HRA, exclusively for their hourly employees, utilizing the hourly fringe benefit rate to fund the HRA. Because of Department of Labor (D.O.L) compliance, a welfare benefit trust would be established that the employer would fund on behalf of each employee. Since the D.O.L. does not allow the employer to recapture the contribution, any unused benefit would carry forward to the next plan year.

3. How Does An Employer Establish A Healthcare Reimbursement Plan?

With an HRA, employers have a variety of plan design options available. Before a plan can be implemented, the employer must decide upon the following features: roll-over options, coordination with their FSA account, and determination of funding limits for each employee classification. Once the plan is created and adopted, the employer must distribute a Summary Plan Description (SPD) to all eligible employees.

4. What Plan Design Options Are Available?

Plan design options are flexible. HRAs may be designed to roll unused balances forward from one year to the next, or to forfeit to the employer at the end of the coverage period. Unlike a Healthcare FSA, the HRA plan does not require employers to advance claim payments to employees prior to the funding of their account. The employer can design the plan so that the funds must have been contributed before they are available to pay for eligible expenses. Following are some typical plan design options:

- **First Dollar or Bridge:** The First Dollar HRA complements a higher-deductible insurance plan. It pays only for deductible items covered by insurance and provides a bridge between out-of-pocket expenses and insurance coverage.
- **Comprehensive:** A comprehensive HRA pays all medical expenses not covered by insurance. These expenses include, but are not limited to: dental and vision expenses, chiropractic services, co-pays, deductibles, and insurance premiums. This plan could be coupled with a high-deductible or limited-coverage insurance arrangement or as a stand-alone employee benefit.
- **Restricted:** A restricted HRA covers a specific group of expenses such as dental or vision. It can also be limited to a single medical expense like prescriptions or insurance premiums.

5. How Does The HRA Coordinate With Flexible Spending Accounts?

An employer may offer both an FSA and an HRA. The same expense cannot, however, be reimbursed from both accounts. Special ordering rules can be designed to determine which account the reimbursement should be made from first. Alternatively, FSAs and HRAs can be structured to provide for reimbursement of mutually exclusive types of medical expenses (such as permitting the FSA to cover only vision expenses and permitting the HRA to cover all other forms of medical expense).

6. What Are Some Advantages Of An HRA Plan?

- Combining a higher deductible insurance plan with an HRA plan can lower a company's health insurance costs.
- An HRA plan can help lower prescription drug costs.
- Administrative costs are tax deductible and can be paid by the employer or employees.
- Unused employee account balances can be rolled forward each year or forfeited by employees, depending on the benefits strategy.
- An HRA complements an FSA plan and enhances FSA participation levels.