

QUESTIONS & ANSWERS

-HRA- HEALTH REIMBURSEMENT ARRANGEMENTS



EMPLOYEE BENEFIT PLAN SPECIALISTS

- *Plan Design*
- *Administration/Claim Processing
Health, Dental, Vision, Life, Disability*
- *Flexible Benefit Plans, HRA's*
- *COBRA/HIPAA Administration*

1-800-877-1122 www.abpmpa.com

TABLE OF CONTENTS

QUESTION	PAGE
What is a health reimbursement arrangement?	3
Are there different types of HRAs?	3
Do I have to redesign my existing insurance to take advantage of a HRA?	3
Once installed, what are the employer's responsibilities?	3
What are the maximum contributions?	4
How does the employer benefit from installing an HRA?	4
What kind of medical expenses can be reimbursed using a HRA account?	4
Do I have to allow employees to carry over unused amounts from year to year?	5
Who cannot participate in an HRA?	5
What are the requirements for installing a plan?	5

Q. What is a health reimbursement arrangement?

A. A health reimbursement arrangement (HRA) is a defined contribution plan specifically authorized by Sections 105 and 106 of the Internal Revenue Code. It is a way of providing valuable benefits.

HRAs must:

- be entirely employer funded, and;
- pay only for substantiated medical expenses.

The HRA can allow:

- carryover of unused amounts, and;
- former employees (including retirees) continued access to unused funds in the reimbursement account.

Contributions can be used to pay for medical, dental, and vision premiums and out-of-pocket medical related expenses.

Q. Are there different types of HRAs?

A. Yes. The most common types of HRAs are described below.

1. Stand-Alone HRA

An employer who adopts a stand-alone HRA promises to reimburse eligible medical expenses through an HRA that is not integrated with a major medical plan. A stand-alone HRA might be designed to reimburse:

- any out-of-pocket medical expense that meets the Code § 213 definition of medical care;
- only dental or other specified out-of-pocket medical expenses;
- only health insurance premiums; or
- some combination of the above.

2. Integrated HRA+HDHC Arrangement

Combining an HRA with high deductible health coverage (HDHC) allows the employer to reduce premium costs (by opting for group insurance with a higher deductible) and use the premium savings to fund the HRA. The employees could then use the HRA funds to offset the impact of the higher deductible.

Q. Do I have to redesign my existing insurance to take advantage of an HRA?

A. No, not at all. The employer may elect to change to a group plan with a higher deductible, but there is no requirement that the major medical plan have a particular deductible level or out-of-pocket limit.

Q. Once installed, what are the employer’s responsibilities?

A. Administrative recordkeeping will be required for the accounts of each participant. The employer is not required to fund the HRA except to pay eligible claims as they occur. Many employers elect to pay claims twice monthly, but otherwise maintain a “zero balance” account.

Q. What are the maximum contributions?

A. HRA contribution amounts are determined by the employer. There is no IRS-prescribed dollar limit.

Q. How does the employer benefit from installing an HRA?

A. The employer benefits in three ways:

Promoting consumer awareness

HRA participants allowed to carry over funds from year to year are more likely to shop and compare for medical services. Defined contribution plans are intended to encourage efficient use of employer-provided health care by fixing employer contributions at a specific projected cost level (the “defined contribution”) rather than promising a certain benefit regardless of cost.

Employee Morale

By providing a new benefit, employers will be better able to attract and retain employees, resulting in long-term business benefits. If deductibles are raised, or group major medical benefits are otherwise reduced, the HRA can soften the impact of the decrease in coverage.

Cost Containment

HRA plans can be designed and structured to help employers to contain costs in an inflationary health care environment (e.g., high deductible health coverage).

Q. What kind of medical expenses can be reimbursed using an HRA?

A. The following list includes examples of expenses that may be reimbursed using a medical spending account:

Acupuncture	Language Training-Doctor Recommended
Alcohol and Drug Treatment	Laser Eye Surgery
Ambulance	Medical Aids
Artificial Limbs and Teeth	Medical Monitoring and Testing Devices
Birth Control Pills	Medical Records Charges
Braille Reading Materials	Naturopath Fees if Legal in Resident State
Childbirth or Lamaze Classes	• Does not Include Herbs or Remedies
Chiropractors	Nursing Services
Christian Science Practitioners	Obstetrical Expenses
Co-insurance Amounts	Occlusal Guards
Contact Lenses and Supplies	Orthodontics, if Medically Necessary
Crutches	Orthopedic Shoes
Deductibles	Osteopath
Dental Care	Oxygen
Diagnostic Fees	Patient Transportation Expenses to Medical
Disabled Needs	Service and Lodging, if Necessary
• Car Controls	Physical Therapy
• Home Improvement	Physician Fees
• Special Schools	Prescription Drugs
• Telephone/Television	Psychiatric and Psychologist Fees
Emotionally Disturbed Child's	Routine Physicals and Other Non-
School if Recommended	Diagnostic Services or Treatments
Eye Exams and Prescription	Seeing Eye Dog and Upkeep
Lenses	Smoking Cessation Program
Fees for Healing Services	Sterilization Fees
Fertility Treatments	Surgery and Surgical Fees
Fluoridation Device	Therapy, Including “Patterning”
Hearing Devices/Batteries	Exercises
HMO Co-Pays	Vaccines and Immunizations
Hospital Bills	Viagra
Hypnosis for Illness Treatment	Wheelchair
Insurance Premiums	X-Rays

Q. Do I have to allow employees to carry over unused amounts from year to year?

A. No. The employer has great latitude in plan design. Participants may be allowed to carry over some or all of unused HRA amounts if the intent is to promote consumerism. If the HRA is implemented in connection with high deductible health coverage to control benefit costs, unused amounts may be retained by the employer to help offset future year benefit costs.

Q. Who cannot participate in an HRA?

A. Partners in a partnership, sole proprietors, and owners who own 2% or more of a Subchapter S Corporation cannot participate in an HRA. Otherwise, all employees who meet employer eligibility requirements may participate.

Q. What are the requirements for installing a plan?

A. To install an HRA the employer must adopt the plan and execute a plan document. Summary Plan Descriptions detailing the plan's eligibility requirements and benefits must be given to all participants. There is currently no initial filing for a determination letter with the IRS, as there is for pension or profit sharing plans.