

CATCHING UP WITH THE HSA'S FIRST COUSIN, THE HEALTH REIMBURSEMENT ARRANGEMENT

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This article is meant to provide an in-depth understanding of the HSA's first cousin: the Health Reimbursement Arrangement.

In June of 2002, the IRS issued the revenue ruling that created the HRA (through a tweaking of existing IRC section 105). The ruling created tremendous flexibility for the use of employer-funded dollars set aside to pay for specific healthcare items. As the title suggests, HRAs are similar to HSAs, but are actually much more similar to Flexible Spending Accounts. However, HRAs have distinct advantages for both employer and employee.



HRAs are defined as accounts that:

- reimburse participants for medical expenses
 - are financed exclusively by the employer
 - reimburse for medical expenses up to a maximum dollar amount in a plan year
 - allow unused dollars to be carried forward to the next plan year (unlike FSAs)
- And because HRAs qualify as health plans, coverage and benefits are tax-free.

Like its cousins HSAs and FSAs, HRAs are tax-preferred funding arrangements,

usually established in conjunction with a high-deductible group health insurance plan. IMPORTANT: Unlike HSAs, HRAs are not required to accompany a qualified health plan. However, beginning January 1, they must accompany a group (individual plans are not allowed) health insurance plan, unless the HRA is for retirees only.

Such a plan acts like a safety net and provides insurance protection for the higher-cost, unanticipated medical expenses (much like health insurance used to do in the old days before copays, drug cards and first-dollar benefits). Premium savings is usually realized by implementing the higher out-of-pocket plan in place of the more traditional, benefit-laden plans that have low copays, deductibles and coinsurance. With an HRA-type plan, the lower-cost, more predictable items are paid for with the funds in the account, while the higher-cost, unanticipated expenses are covered by the accompanying group health plan.

There are important features of the HRA that need to be taken into consideration,

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primarily what the HRA funds can (and can't) be used for. Generally speaking, HRA funds can be used by an employee to pay for any medically related expense listed on the IRS Section 213(d). This list includes a broad range of expenses, from acupuncture to vitamins. Additionally, HRA funds can be accessed to pay for long-term care insurance, and to pay for health insurance coverage on behalf of retirees and former employees electing COBRA continuation coverage.

HRA funds cannot be used for benefits other than medical expense reimbursement, nor can they be used to pay for expenses for which a tax deduction was or is to be taken.

Finally, in order to use HRA funds to pay for a qualified expense, the expense must have been incurred during the time that the HRA was in place. HRA plans have their own Summary Plan Description, which outlines, among other things, specifically what expenses are reimbursable.

This chart below lists the primary differences between HSAs and HRAs:

Recently, the IRS and the Department of Labor released guidance affecting HRAs for plan years beginning in 2014, in light of PPACA. Here are the main points of this guidance:

- The HRA must be offered only to plan participants who are actually enrolled in other group health plan coverage. Pair-

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ing the HRA with individual insurance coverage violates the annual dollar limit prohibition and the preventive services requirement. An exception to this requirement would be a retiree HRA plan, which does NOT have to be paired with a group health plan.

- The group coverage must comply with the annual dollar limit prohibition and, if non-grandfathered, the preventive services requirements.
- The other group health plan does not have to have the same plan sponsor, the same plan document or the same Form 5500 filing as the HRA. For example, the HRA could be made available to plan participants who enroll in the group health plan offered by a spouse's employer.
- If the other group health plan with which the HRA is paired does not meet the PPACA's 60% minimum value standard, there will be limits on the types of expenses the HRA may reimburse. In that circumstance, the HRA may only

reimburse for copayments, coinsurance, deductibles, expenses that are not essential health benefits, and premiums for the purchase of the other group health plan.

- An active or former participant must be allowed to (annually) permanently opt out of HRA coverage and waive future reimbursements from the HRA. Upon termination of employment, a participant must be able to permanently opt out of and waive future reimbursements from the HRA. If this option is not made available, the remaining amounts in the participant's HRA must be forfeited. The reason for the opt-out is to give the participant the choice of spending down the HRA balance (in accordance with the terms of the plan) or applying for a premium assistance tax credit in a health insurance marketplace. Retaining any balance in the HRA would prevent the participant from getting the tax credit.
- If not waived, unused HRA amounts that are credited to a permissible HRA may be used to reimburse qualified medical expenses after the participant ceases to be covered by the other group health plan coverage (for example, when the participant retires).

To date, the federal government has given us three tax-preferred spending accounts to accompany high-deductible health plans. Each has its own unique application and use and, depending on an employer's goals and employee benefits objectives, one may be more appropriate than another. HSAs tend to favor the employee, while HRAs and FSAs tend to favor the employer in terms of flexibility and cash outlay. HIU

	HSA	HRA
Who Funds It?	Employee and/or Employer	Employer Only
Can You Carry Forward Unused Funds?	Yes	Employer Decides
Is a QHDHP Required?	Yes	No
Who Owns It?	Employee	Employer
Is There Interest Accrual?	Yes	No
Is It a Personal Account?	Yes	No
Can You Use Funds for Non-Medical?	Yes	No
Is It Portable?	Yes	Employer Decides
Funding mechanism	Bank Account	Wage allocation