

Health Reimbursement Arrangements

A Health Reimbursement Arrangement (HRA) is a defined contribution health plan. It is 100% employer funded and is often used by the employer to help with cost control and with shared responsibility for health care expenses with the employees. All code 213 expenses are eligible to be offered and paid tax-free through an HRA. This includes group health insurance premiums and long-term care insurance premiums. It excludes disability and life insurance premiums and also long-term care services.

An HRA can be offered to the employee, spouse and eligible dependents. It can also be offered to retirees, spouses and dependents. The employer determines who will be eligible for the plan. A more-than 2% owner of an S-corporation, partnership, sole proprietorship, LLC, or LLP are not eligible to participate in the plan. However, the employees of these entities can participate.

When an HRA is offered the plan design determines how the plan will work. The employer can pay benefits to the employees on an accrual basis or they can pay the full plan year amount at any time during the plan year. Unused HRA dollars can be carried forward from one plan year to the next or not as determined by the plan design. These rules are different from a flexible benefit plan rules and the employer chooses what plan design will work best for the company to meet its benefit objectives. Benefits can also be prorated during the year for new hires. However, the plan design must be nondiscriminatory for all employees. Unused dollars can never be cashed out of an HRA nor can they be included and paid at termination, death or as severance. Dollars can only be paid-out as eligible medical expenses.

No salary reduction dollars are allowed within an HRA. Under nondiscrimination rules there can also be no direct or indirect correlation between salary reduction and HRA dollars. Premiums charged for an HRA cannot exceed COBRA premium values.

When a flexible benefit plan and HRA are both offered the employer decides which plan pays as the primary payer and which plan is the secondary payer. The employee does not specify the payment priority.

Since an HRA is an unfunded health plan 5500 Form reporting is not required when there is less than 100 participants. If the plan has more than 100 participants than the plan is subject to ERISA and 5500 Form reporting may apply. COBRA is always offered with HRA.

An HRA is often used as a cost-sharing feature with a deductible portion of the health insurance or can be used to pay for only certain expenses like vision care, hearing care or dental expenses.

To learn more about how an HRA may benefit your company contact our Consulting Professionals at 800-888-9084.