HR Q&A Employee Benefits

Courtesy of Meridian Benefits Consulting

Q **What is a health reimbursement arrangement (HRA)?**

A An HRA is an employer-sponsored arrangement that reimburses employees on a tax-free basis for their eligible medical expenses. Unlike a health savings account (HSA), employees do not need to participate in a high-deductible health plan (HDHP) to be eligible for an HRA. It is common, however, for HRAs to be paired with an HDHP in order to maximize premium savings and increase employee awareness of medical spending.

HRAs are funded completely by employer contributions. These employer contributions are generally tax-deductible and excluded from an employee's gross income. Different from HSAs or health flexible spending accounts (FSAs), employees cannot make contributions to an HRA. Most employers with HRAs create notional, or unfunded, accounts for each participating employee and reimburse eligible medical expenses up to each employee's HRA balance.

Employers have considerable design flexibility with respect to their HRAs, including establishing the maximum reimbursement amount under the HRA. This limit may vary for different groups of employees, although employers are generally prohibited from basing contributions on an employee's age, length of service or compensation. Employers may link HRA contributions with some type of employee behavior, such as participating in a wellness program. HRA design choices should be reviewed by the employer's advisors to ensure compliance with legal requirements.

HRAs may reimburse employees for their own eligible medical expenses, as well as their spouses' and dependents' eligible medical expenses. Eligible medical expenses are unreimbursed medical care expenses, as defined under Section 213(d) of the Internal Revenue Code. An employer can more narrowly define the expenses that can be reimbursed from its HRA. Unlike HSAs, HRAs cannot be used to pay for non-medical expenses.

Also, effective in 2011, as part of the health care reform law, over-the-counter medicine (except insulin) cannot be reimbursed from an HRA unless it is prescribed.

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Employers may allow unused HRA funds to roll over from year to year, but are not required to do so. Unlike an FSA, unused HRA funds are not necessarily forfeited at the end of each plan year (or grace period). However, employers that choose to permit rollovers often place limits on the amount that can be carried forward (for example, a percentage of the unused balance or a specific dollar limit).

HRAs can also be designed to allow former employees to spend down their unused HRA balance, although HRA cash-outs are prohibited.