

Health Reimbursement Arrangements

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What is a HRA?

In June of 2002, the IRS established a ruling and terminology for what are now known as Health Reimbursement Arrangements (HRAs). An HRA is an extension of a qualified medical reimbursement plan, in which the employer agrees to provide reimbursement for certain employee medical expenses. This process has always enjoyed a tax favored status as employer payments for reimbursement of IRS qualified medical expenses are deductible to the employer and not considered taxable income to the employee. The 2002 ruling added clarification that an employer promise of reimbursement that goes unused in a given year, can in fact, be carried forward for future years' expenses without adverse tax consequences.

Quick Facts

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Additionally, this ruling led to the establishment of several rules and guidelines for HRA utilization. In essence, non-discrimination rules, and other various guidelines were provided.

Basically, the HRA plan is an arrangement where an employer allocates dollars for the reimbursement of employee (and dependent) qualified medical expenses not covered elsewhere. Funds for HRA reimbursements always come from the employer, NOT from the employee.

What are the benefits of an HRA?

The benefits of an HRA plan vary widely from plan design to plan design, but most often the plan is designed to save the employer money without significant compromise to the employee benefit plan. An HRA is most often coupled with a high-deductible health plan, which reduces the premium considerably. This high deductible however, frequently becomes an issue of contention with the employees receiving the benefit. Therefore, the employer utilizes some or all of the savings to establish authorized reimbursement of employee qualified medical expenses for a portion of that deductible amount. Those employees that actually incur medical expenses are subsidized by the HRA promise made by the employer. Often, the numbers show that the employer can provide benefits

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comparable to the previous benefit structure at an overall reduced cost. Additionally, if the employee population enjoys a favorable level of expenses, the employer retains the funds allocated for those expenses as well as the premium reduction for the high deductible health plan.

Finally, the advantages of an HRA include a higher level of consumer awareness as to the spending for health expenses. Employees would typically prefer keeping their expenses to within the employers' allotted amount, thereby having full coverage for their needed expenses. This is likely to change employee behavior somewhat, to reduce over utilization of the health care system.