

Benefit Fact Sheet

What is it?

Health Reimbursement Arrangements (HRAs) were created by an administrative ruling issued by the IRS in June 2002. This ruling reinterpreted existing regulations relating to Flexible Spending Accounts, and created accounts in which accumulated funds could roll over from one year to the next for the first time.

HRAs consist of employer contributions to notional accounts kept on behalf of enrolled employees. Similar to Flexible Spending Accounts, employees can use HRA funds for reimbursement for eligible medical expenses. Unused funds can be rolled over from year to year, subject to limits established by the employer. The funds are owned by the employer and may be forfeited should the employee terminate or disenroll. The account can never be cashed out and taken as compensation by the employee. If the employer permits withdrawals for non-medical expenses, the HRA will be disqualified for all employees, who will owe taxes on all amounts paid out of the HRA, including all prior medical reimbursements.

Why offer it?

- HRAs can be used as the Personal Health Account component of a [Consumer Directed Health Plan](#), although an employee does not need to be covered under any other health care plan to participate
- Funds in HRAs are controlled and potentially retained by the employer upon termination of the employee. Accumulated funds may act as an additional retention incentive.
- HRAs offer more employer flexibility with regards to overlying medical plan design and rollover features than [Health Savings Accounts](#).

What types and size of employers offer it?

Employers of all sizes may offer HRAs.

What are the critical underwriting or participation requirements?

- Outsourced administration fees are based on the size of the group and plan participation.
- The plan must meet basic non-discrimination requirements in order to obtain favorable tax treatment.

How much does it cost?

As with other plans, HRA cost is entirely up to the employer. Important factors include: how much money to contribute per year, how much may be rolled over from year to year, and how the funds may be used (if at all) after the employee ceases employment.

The HRA has proven to be an effective cost containment tool when used as a component of a Consumer Directed Health Plan.

Informational link(s)

- [Publication 969](#) (Internal Revenue Service)
- [Legislative Advocacy – Health Reimbursement Arrangements](#) (National Association of Health Underwriters)
- [Health Spending Accounts](#) (US Department of Labor)

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Pros and cons

Pros

- Improved flexibility for employers and employees
- Improved prospects for long term health cost management
- Lack of portability may act as retention incentive

Cons

- Must be employer funded
- Communication challenges
- Potential for adverse selection

Notes

There are a number of questions and issues an employer needs to consider prior to implementing an HRA:

- How does the HRA coexist alongside a traditional FSA?
- How do you handle mid-year enrollments or opt outs?
- How do you handle qualified status changes?
- From an accounting perspective, how do you treat accumulated HRA liabilities?
- How will COBRA continuation be dealt with?

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.