

BCT Benefits Consulting Team LLC

Health Reimbursement Arrangements

or (HRAs) are [Internal Revenue Service](#) (IRS)-sanctioned programs that allow an employer to reimburse medical expenses paid by participating employees, thus yielding "tax advantages to offset health care costs"^[1].

Description

Establishment

HRAs are initiated by the employer and serviced by a third-party administrator or plan service provider.^[citation needed] The employer may provide in the HRA plan document that credit balances in an employee's HRA account can be rolled over from year to year like a savings account.^[citation needed] The employer decides if the funds are rolled from year to year and how much rolls over (which can be either a flat amount or a percentage).^[citation needed]

Contributions

According to the IRS, an HRA "must be funded solely by an employer," and contributions cannot be paid through a voluntary salary reduction agreement (i.e., a [cafeteria plan](#))^[1]. There is no limit on the employer's contributions, which are excluded from an employee's income^[1].

Distributions

According to the IRS, "employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount for a coverage period"^[1]. HRAs reimburse only those items (copays, coinsurance, deductibles and services) agreed to by the employer which are not covered by the company's selected standard insurance plan (any health insurance plan, not only [high-deductible plans](#)).^[citation needed] These arrangements are described in IRS Section 105.^[citation needed]

With an HRA, employers fund individual reimbursement accounts for their employees and define what those funds can be used for – i.e., specified out-of-pocket expenses such as deductibles and co-pays.^[citation needed]

Qualified claims must be described in the HRA plan document at inception, i.e., before reimbursing employees for those medical expenses.^[citation needed] Arrangements (medical services, dental services, co-pays, coinsurance, deductibles, participation) may vary from plan to plan, and an employer may have multiple plans in place, allowing much flexibility.

The employer is not required to prepay into a fund for reimbursements, instead, the employer reimburses employee claims as they occur.^[citation needed]

Reimbursements under an HRA can be made to the following persons^[1]:

1. Current and former employees.
2. Spouses and dependents of those employees.
3. Any person the employee could have claimed as a dependent on the employee's return except that:
 1. The person filed a joint return,
 2. The person had gross income of \$3,400 or more, or
 3. The employee, or his/her spouse if filing jointly, could be claimed as a dependent on someone else's 2007 return.
4. Spouses and dependents of deceased employees.

Advantages, disadvantages, and limitations

Advantages of HRAs for employers include:

- Reimbursements of qualified claims are tax-deductible for the employer.^[2]

Advantages of HRAs for employees include^[1]:

- Contributions that employers make can be excluded from employees' gross income.
- Reimbursements may be tax free if the employee pays qualified medical expenses.
- Unused funds in the HRA can be rolled into future years for reimbursement.
- HRAs may be offered in conjunction with other employer-provided health benefits including [Flexible Spending Accounts](#) (FSAs).
- Employees do not have to be covered under any other health care plan to participate, unlike (for example) a [Health Savings Account](#) (HSA) which requires a [High Deductible Health Plan](#).

A frequent complaint regarding HRA arrangements is that they are extremely opaque in regards to their requirements. HRAs must follow "a variety of statutory rules and provisions" including the [Consolidated Omnibus Budget Reconciliation Act of 1985](#) (COBRA) continuation coverage requirements, the [Employee Retirement Income Security Act](#) (ERISA), and the [Health Insurance Portability and Accountability Act](#) (HIPAA)^[3]. Rules pertaining to their reimbursements are perceived by member participants to be somewhat contradictory and/or even incoherent- leading some to lose contributions which are intended for healthcare but are learned (after the procedure or laboratory test) to be disallowed.^[citation needed]

Limitations of HRAs include^[1]:

- Self-employed persons are ineligible.
- "Highly compensated" participants may be subject to "certain limitations."

Three parts



This section does not [cite](#) any [references or sources](#).

Please help [improve this section](#) by adding citations to [reliable sources](#). [Unverifiable](#) material may be challenged and removed. *(November 2008)*

An HRA plan has three parts:

- 1) set yearly amount given by the employer (for example could be \$500 or \$1000). This is money the employee can spend completely, no deductible.
- 2) bridge amount (for example could be \$500 or \$1000). This is money the employee has to pay out of pocket.
- 3) traditional insurance plan. Typically those amounts will be \$500, \$500 and 90% respectively.

Thus the employee can use the first \$500 and pay nothing out of pocket, then spend the next \$500 completely out of pocket, then be covered by the traditional insurance plan. If the first \$500 is unused at the end of the year it is then rolled over to next year.

References

1. ^{[^](#)} ^{[a](#)} ^{[b](#)} ^{[c](#)} ^{[d](#)} ^{[e](#)} ^{[f](#)} ^{[g](#)} Internal Revenue Service. [Health savings accounts and other tax-favored health plans. For use in preparing 2007 returns](#). Publication 969 (2007).
2. ^{[△](#)} U.S. Small Business Administration. [Health savings, spending and reimbursement programs comparison](#). Accessed November 12, 2008.
3. ^{[△](#)} Masano, Lorianne D. [Health reimbursement arrangements. Notice 2002-45](#). *Internal Revenue Bulletin*, no. 2002-28, July 15, 2002, pages 93-96.

See also

- [Consumer driven health care](#)
- [Flexible spending account](#) (FSA)
- [FSA debit card](#) - [Debit cards](#) issued with HRAs fall under the same restrictions as FSAs.
- [Health Savings Account](#) (HSA)
- [Medical savings account](#) (MSA)

Retrieved from "http://en.wikipedia.org/wiki/Health_Reimbursement_Account"

Category: [Taxation in the United States](#)

Hidden categories: [Articles needing additional references from December 2008](#) | [All articles with unsourced statements](#) | [Articles with unsourced statements since November 2008](#) | [Articles with unsourced statements since December 2008](#) | [Articles needing additional references from November 2008](#)

Search



- This page was last modified on 9 January 2009, at 06:52.
- All text is available under the terms of the [GNU Free Documentation License](#). (See [Copyrights](#) for details.)
Wikipedia® is a registered trademark of the [Wikimedia Foundation, Inc.](#), a U.S. registered [501\(c\)\(3\) tax-deductible nonprofit charity](#).
- [Privacy policy](#)
- [About Wikipedia](#)
- [Disclaimers](#)