

## Employee Benefits Series



# Health Reimbursement Arrangement (HRA)

## KEY FEATURES FOR 2015



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### Overview

<b>Account Description</b>	<u>Employer-established benefit plan</u> that reimburses eligible employees for qualified medical expenses
<b>Important Reminders for 2015</b>	An HRA <b>must be <u>integrated</u>*</b> with other group health plan coverage in order to meet <u>certain requirements</u> under Health Care Reform. "Stand-alone" HRAs (except for retiree-only HRAs and HRAs consisting solely of <u>excepted benefits</u> ), as well as HRAs used for an employee's <u>individual insurance policy premiums</u> , <b>do not comply with the law.</b>
<b>Potential Tax Benefits for Employees</b>	<ul style="list-style-type: none"> <li>• Employer contributions are excluded from gross income and are not subject to employment taxes</li> <li>• Reimbursements used to pay qualified medical expenses are not taxed</li> </ul>

### Employee Eligibility

<b>Who May Participate</b>  <small>Note: Self-employed persons are not eligible for an HRA. Certain limitations may apply to key employees or highly compensated participants.</small>	To be " <u>integrated</u> " with other group health plan coverage, <u>among other requirements</u> , an HRA must be available only to employees who are enrolled in non-HRA group coverage—either another group health plan that does not consist solely of <u>excepted benefits</u> or a group health plan that provides <u>minimum value</u> .  HRAs <u>may not discriminate</u> in favor of highly compensated individuals as to eligibility to participate or benefits offered (IRC <u>Section 105(h)</u> ).
<b>HDHP (High Deductible Health Plan) Coverage Required</b>	No; however, in order to be " <u>integrated</u> " with other group health plan coverage, <u>among other requirements</u> , an HRA must be available only to employees who are enrolled in non-HRA group coverage—either another group plan that does not consist solely of <u>excepted benefits</u> or a group plan that provides <u>minimum value</u>

### Contributions

<b>Who May Contribute</b>	Only the employer may contribute
<b>Pre-Tax Employee Contribution Allowed</b>	No, funded solely through <u>employer contributions</u>
<b>Limit on Contributions</b>	While there is <u>no limit</u> on the amount of money an employer may contribute to an employee's HRA, <u>annual dollar limits</u> on coverage of essential health benefits are prohibited.  HRAs that are " <u>integrated</u> " with a group health plan that itself has no annual limits will <u>comply with the requirement</u> to eliminate annual limits, while " <b>stand-alone</b> " HRAs (except for retiree-only HRAs and HRAs consisting solely of <u>excepted benefits</u> ) <b>violate the rule.</b>
<b>Employer Participation</b>	Employer contributions must not discriminate in favor of highly compensated individuals as provided by IRC <u>Section 105(h)</u> .

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<b>Distributions</b>	
<b>Distributions Allowed</b>	Reimbursements under an HRA can only be made on a tax-free basis for qualified medical expenses to current and former employees (and their spouses and dependents), as well as to spouses and dependents of deceased employees, and to the employee's adult child under age 27 as of the end of the taxable year (regardless of whether the adult child qualifies as the employee's tax dependent).
<b>Timing of Distributions</b>	An HRA may not reimburse expenses for medical care incurred <u>before the date the HRA is in existence</u> or <u>before the date an employee first becomes enrolled under the HRA</u> .
<b>Qualified Medical Expenses</b>	<p>Qualified medical expenses are those specified in the plan that generally would qualify as expenses for "medical care" as defined in IRC <a href="#">Section 213(d)</a>.</p> <p>For purposes of HRA reimbursement, <u>qualified medical expenses include</u>:</p> <ul style="list-style-type: none"> <li>• Amounts paid for health insurance premiums<sup>+</sup></li> <li>• Amounts paid for long-term care coverage</li> <li>• Amounts that are not covered under another health plan</li> </ul> <p><b>Note:</b> HRAs that are "<u>integrated</u>" with a group health plan that itself complies with the preventive services requirement will also be <u>deemed to comply</u>, while "<b>stand-alone</b>" HRAs (except for retiree-only HRAs and HRAs consisting solely of <u>excepted benefits</u>) <b>violate the rule</b>.</p> <p><sup>+</sup>HRAs used for employees' individual insurance policy premiums <u>violate</u> both the annual dollar limit prohibition and preventive services requirements.</p>
<b>Other Issues</b>	
<b>Balance and Carryover</b>	Amounts that remain in the HRA at the end of the year can <u>generally be carried over</u> to the next year. The employer is not permitted to refund any part of the balance to the employee.
<b>Account Subject to COBRA</b>	Generally yes
<b>Portability</b>	No, the employer is the owner of the account

*\*An HRA will be integrated with a group health plan if it meets the requirements under either of two integration methods described in the [agency guidance](#). Both methods require that the HRA be available only to employees who are enrolled in non-HRA group coverage—either another group health plan that does not consist solely of excepted benefits or a group health plan that provides minimum value, regardless of whether the employer sponsors the plan. Whether or not an HRA is integrated with other group health plan coverage, unused amounts that were credited to an HRA while the HRA was integrated with other group health plan coverage may be used to reimburse medical expenses in accordance with the terms of the HRA after an employee ceases to be covered by other integrated group health plan coverage without causing the HRA to fail to comply with the law.*

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