



The basics of Health Reimbursement Arrangement (HRA) Plans

1. [An HRA is employer funded.](#) While FSAs and HSAs allow employee pre-tax contributions through payroll, an HRA does not allow for this.
2. As of legislation passed in 2013 ([Treasury Notice 2013-54](#)), the only acceptable HRA offering is one that is integrated with another comprehensive major medical health plan, is a retiree only plan, or only reimburses for excepted benefits such as dental and vision (no medical). The only exception to this legislation is the Qualified Small Employer HRA ([QSEHRA](#)) passed in 2016. Guidance on the QSEHRA is at the end of the document.

The ACA defines an HRA as a group health plan, and under the ACA there are certain restrictions placed on group health plans. Specifically, benefits paid out of a group health plan cannot have annual limits. [When an HRA is integrated, the underlying major medical health plan solves the requirement regarding annual limits.](#) Any stand-alone HRA with an annual employer maximum liability is in violation of the annual limit rule. The exception is for a Limited HRA, which can be offered without a comprehensive health plan to cover excepted benefits such as dental and vision. This is quickly becoming an issue with Administrators marketing new MEC plans that have a defined employer maximum and do not have a carrier plan or comprehensive major medical health plan wrapped into it. If you find yourself in the situation where the cost of administration seems too good to be true, it could be because you are only paying the cost of the administrator and PPO Network (if applicable). When you add the comprehensive major medical coverage, there are other expenses added to the plan for this coverage and the price should be reflective of such. Do your research and ask a couple important questions such as:

- Is there a set employer liability or maximum amount defined for how much the employer will pay per year per employee?
 - If yes, is there other comprehensive major medical coverage integrated with the plan, which begins to pay for claims once the employer maximum is met? We know that utilization stays low, so the chances of the maximum being met are low; but if there is not carrier coverage, or another major medical plan integrated with the MEC coverage, it is not a legitimate plan as defined by the ACA. It is the employer's responsibility to ensure it has proper, legal coverage in place; and the employer relies on the broker to do his or her research when providing guidance.
3. [An HRA can be offered with, or without dependent coverage.](#) Every HRA Plan is required by ERISA to have Plan Documents which define its specific rules. If dependents are to be covered by an employee's HRA, they must also be enrolled in a major medical group health plan.

4. HRA expenses can vary. [IRS Publication 502](#) defines eligible medical and dental expenses for IRS purposes. It is often used as a guide to determine if an expense is eligible under an HRA, but is not always the determining authority. An employer has the ability to place additional restrictions on what is considered an eligible expense for HRA reimbursement. The Plan Document will outline specifically what the covered expenses are.

5. Employers have quite a bit of freedom in setting the HRA rules. The employer plan sponsor ultimately determines how to handle certain aspects of the HRA, but must keep certain guidelines under consideration such as:
 - How much will be allocated to employees and what would cause that amount to vary.
 - What categories of expenses are eligible for reimbursement.
 - What will happen at year end, with loss of eligibility or when an employee is terminated.
 - What the claim submission timeframes are for reimbursement.

6. [QSEHRA](#), also known as a small business HRA, allows employers to integrate an HRA with individual comprehensive major medical health plans. The legislation passed December 2016 allows small employers to have this form of stand-alone HRA in specific situations. The QSEHRA operates as an excepted benefit.

The requirements are below:

- Employer must have fewer than 50 full time employees, and
- Cannot offer a group insurance benefit to include health, dental or vision
- 1099 employees are not eligible
- Must be offered to all full time, and can be offered to all part time
- The employer will set a monthly allowance.
- The employee will make his or her qualified purchases with their own money. This can be for the cost of the individual health plan premium, copays, coinsurance, deductibles, prescriptions and other 213(d) expenses.
- The employee will submit proof of expense and request reimbursement through the QSEHRA.
- The employer sponsor or administrator will review the proof and approve for reimbursement or deny. Reimbursements are paid free of payroll tax and can be free of income tax also if the employee has minimum essential coverage.