



HRA Q&A

An aid for Health Reimbursement Arrangements (HRAs) and High Deductible Plans

GENERAL INFORMATION

What is an HRA?

An HRA is a federally authorized funding program that enables employers to reimburse employees for a portion of their health care expenses.

Are there restrictions on who can participate in an HRA?

The IRS has ruled that only employees and their spouses and dependents qualify for HRA reimbursements. Therefore, self-employed individuals do not qualify for an HRA. In the past, the IRS has ruled that shareholders who own more than 2% stock in a Sub chapter S Corporation should not be treated as employees for purposes of applying the fringe benefit rules. Finally, partners generally are considered self-employed and would not qualify as employees.

Are LLCs treated the same as an S corporation for HRA purposes?

If the Limited Liability Corporation (LLC) is treated as an S corporation for federal income tax purposes, it seems that the same rules would apply. However, if the LLC elects to be taxed as a C corp for federal income tax purposes, it may be possible for the owners to participate in an HRA plan.

Does a self-employed individual (including a partner), who offers an HRA to employees have other options to reduce his/her health care expenses?

Yes, the self-employed individual may be eligible for a Health Savings Account(HSA) for him/herself and still set up the HRA for employees.

Can the employee contribute to an HRA either directly or through salary reduction?

No, an HRA is solely employer-sponsored.

TAX QUESTIONS

Are HRA reimbursements tax deductible for the employer?

Yes, reimbursements made by the employer are tax deductible after they are paid to the employee.

Are HRA reimbursements taxable income for the employees?

No, HRA reimbursements for qualified expenses are received tax-free.

EMPLOYER DECISIONS

Must an employee participate in health insurance coverage to receive an HRA?

There is no legal requirement, but an employer can require an employee to participate in health insurance in order to receive the HRA. If combined with a major medical plan, an employer is not restricted to a particular type of plan that accompanies the HRA.

Must an HRA be combined with a high deductible health insurance plan?

No, unlike a Health Savings Account (HSA), HRAs can be independent of a high deductible plan. However, an employer's savings may be maximized with a high deductible plan.

Can an HRA reimburse for expenses other than deductible charges?

Yes, employees can be reimbursed for a wide range of medical expenses – including dental and vision expenses (IRS Code Section 213). The determination is made by the employer.

Can an employer continue to reimburse a former employee for medical expenses after termination?

Yes, if the employer sets up the HRA to do so.

Can an employer pay out any cash balance from an HRA to an employee who is terminating?

No. However, an employer can set up the HRA so that when employees retire, the remaining balance can be used to pay for retirees' medical expenses.

Does an employer have to provide or maintain an HRA for an ex-employee and/or his/her spouse if he/she takes COBRA?

Yes. An employer must continue to provide the maximum reimbursement amount that is available to all other employees for the length of time the ex-employee is on COBRA.

EMPLOYEE BENEFITS CORPORATION (EBC) HRA ADMINISTRATION

How does an employer receive HRA services without paying separate service charges?

When an Assurant Health qualified plan is combined with an EBC HRA, the employer gets the HRA plan with no setup fee or separate monthly service fees. If the employer selects an EBC HRA, he/she can add an EBC Flexible Spending Account (FSA) or Premium Only Plan (POP) at no additional cost. The employer needs to complete an EBC Service Agreement with this information before the EBC HRA plan year begins.

What is an Assurant Health qualified plan?

There are no separate monthly HRA administration fees if the group has a qualified Assurant Health plan and an EBC HRA. A qualified Assurant Health plan is one in which:

- a. The employees must pay at least 50% of the deductible charges
- b. The minimum deductible amounts are \$1200 for an individual and \$2400 for a family

If the group no longer has a qualified Assurant Health plan, EBC will charge the group using their standard fee structure.

What is the Service Agreement?

It is an agreement between EBC and the employer outlining the plan design of the EBC HRA, FSA or POP plan. The service agreement **MUST** be signed and dated prior to the beginning of the plan year. This is an IRS requirement.

Do I submit the signed Service Agreement to Assurant Health or directly to EBC?

The signed service agreement may be submitted to Assurant Health along with the health applications. Assurant Health will forward the agreement to EBC once the coverage is issued.

The employer's insurance plan is effective in June. Will the HRA plan year coincide with the insurance plan year?

No, the HRA operates on a calendar year basis, just like the Assurant Health plan deductible. If the HRA is established with a June effective date, the first year is a short plan year, from June through December. The regular HRA plan year begins in January. The Assurant Health insurance plan will renew the following June.

What information is provided to employees so they have an understanding of the HRA and how it works?

EBC provides each employee with a Summary Plan Description (SPD) and an appendix called "My Company Plan". The SPD answers general questions about the HRA and includes a sample Reimbursement Form and Direct Deposit Authorization Form.

My Company Plan explains the details of the plan for that particular group. The information includes:

- Plan dates
- Amounts available for reimbursement
- Eligible expenses
- Expense reimbursement availability
- Contacts for questions

Can I get copies of the Summary Plan Description (SPD) to use when presenting the HRA concept to clients?

The SPD was designed for use once an employer has signed up. The essential information on EBC procedures have been incorporated into this Q & A for your reference.

How is the EBC HRA plan funded?

The EBC HRA does not need to be pre-funded. As claims are submitted to EBC, money is requested from the employer to pay claims. This request is made via a direct debit from the employer's checking or savings account.

What is the debit card and is there a cost for this service?

It's an optional convenient debit card (Benny™ Card) used to pay for prescriptions at the point of service. If a qualified Assurant Health plan is selected, there is no cost for this service. Addition of the Benny™ Card does require pre-funding of at least 4%.

Can my client get the Benny Card™ for the HRA and the FSA?

Current system limitations allow the debit card for either the HRA or the employee-funded FSA – not both.

What does an employee do to get reimbursed from EBC when he/she incur a medical expense?

EBC receives pertinent claim information electronically from the customer's Assurant Health Explanation of Benefits (EOB) statement to process most reimbursements. However, there may be expenses eligible for HRA reimbursement that are not covered by insurance (e.g. dental or optical expenses). In this situation, the employee simply fills out an EBC Reimbursement Form and mails or faxes it to EBC.

The reimbursement is then mailed to the employee in the form of a check or deposited directly into his/her account, per the employee's request.