



Control costs, offer choice with an HRA

A Health Reimbursement Arrangement (HRA) can help you manage benefit costs and help your employees make informed decisions with their healthcare dollars. HRAs can be an innovative solution for countering rising health insurance costs.

What is an HRA?

A tax-favored, employer-funded account with no contribution from employees.

For reimbursing employee (and eligible dependent) health expenses.

Often paired with a high-deductible health plan (HDHP).

Employers can fund an HRA with cost savings from switching to an HDHP from a copay plan.

Employees must be enrolled in your group medical plan.

You decide what amount to allocate to employees for their healthcare expenses during a plan year.

Some HRA plans include a built-in carryover provision that allows unused funds in one plan year to be used in the next year.

When paired with an HDHP, employees can use HRA funds to pay expenses while they're meeting the deductible.



Advantages of an HRA

-  **Offers flexibility for employers to set the rules of the arrangement**
-  **Encourages employees to become smarter consumers**
-  **Helps control benefit costs, especially when paired with a cost-saving HDHP**

Customize your HRA to suit your organization's needs



When setting up your HRA, you decide:

- If employees are responsible for any expenses before they can use HRA funds
- The amount allocated to each employee's account
- If, and how much of the unused funds can be carried over from year to year
- Which expenses are reimbursable, such as medical, dental, vision
 - Eligible expenses can be limited to a smaller range, such as services subject to a health plan's deductible

We can help you choose an HRA plan design that best suits your organization.

How it works

1. We set up your HRA account according to the plan you've chosen.
2. As your employees incur expenses, they report them to us for adjudication and reimbursement.
3. Once a month, we'll bill you for the value of claims paid for the month. You are only billed for claims that are reimbursed from the HRA—not for the full amount you've allocated. HRA reimbursements are typically paid from your company's general assets.

HRA FAQ



Who is eligible to participate in an HRA?

Most employees are eligible to participate in HRAs. However, per IRS guidelines, if you have two percent or more ownership in a schedule S corporation, LLC, LLP, sole proprietorship, or partnership, you are not eligible to participate. We'll work with you to resolve any eligibility questions.

Can employees use pretax salary reductions to contribute to the HRA?

No. The HRA can only be funded by an employer, not an employee.

What types of medical expenses can be reimbursed with the HRA?

That's largely up to you. You can choose to allow reimbursement of a broad range of health-related expenses, such as the ones allowed under a healthcare FSA. These include medical, dental, vision, and prescription drug expenses, as well as long-term care and COBRA premiums.

Or, you can limit it to certain types of health-related expenses, such as those subject to your group health plan's deductible.

If you choose to limit the types of eligible expenses, you should consider offering a Flexible Spending Account (FSA) for employees to elect to cover other expenses not allowed under the HRA, such as dental and vision care.

How much should I allocate for each employee?

You can set your own HRA allocation amount. In general, we recommend funding the HRA at 50 to 75 percent of your health plan's annual deductible for each employee. That level gives employees a reasonable amount of first-dollar coverage while still providing for some cost sharing.

Can I define the HRA carryover amount?

Yes. You set the rules on the HRA carryover provision. You can choose to impose an annual carryover maximum and even cap the total HRA account balance.

What timeframe is the HRA allocation based on?

Our HRAs coincide with your medical plan's deductible. This allows your employees to have funding when their medical deductible resets. The HRA allocation is generally based on the insurance deductible and out-of-pocket limits. However, if you purchase an HRA mid-year, we can adjust the HRA plan year to coincide with your medical plan's deductible. In that case, the first (partial) year's HRA allocation could be prorated, and the full annual allocation would begin when you renew your plan.

Why is the HRA prefunded?

Prefunding of the HRA allows us to pay claims as they are received. You are billed once per month for claims reimbursed, to bring your account back to the prefunding amount.

Is there a risk in allowing the full annual contribution at the beginning of the plan year? Can I lose money if employees run up large claims early in the year and then terminate?

Yes, that's an inherent risk with both FSAs and HRAs. For businesses with high employee turnover, an employer could divide the total annual HRA allocation and distribute it over 12 months. Then, employers can choose to limit employee access to the accrued amount.

Can employees cash out unused HRA amounts before retiring or changing jobs?

No, the HRA can only be used for reimbursement of eligible medical expenses under the plan. The plan may be designed, however, to permit a terminated employee to be reimbursed for medical expenses incurred after their termination date.

Can employees use their HRA funds to pay COBRA premiums after termination?

Yes, we do offer a plan that includes reimbursement of COBRA premiums after termination.

All our services include:



Secure online account access



Excellent customer service



Quick and accurate claims administration

About us

We have a long history in insurance, employee benefit plan administration, and management services. We currently provide services for more than 2,150 organizations, primarily in the Northwest. PacificSource Administrators, Inc. has regional offices in Idaho, Montana, Oregon, and Washington.

Questions?

Contact us for quotes and information.

Email

PSASales@PacificSource.com

Phone

800-422-7038

TTY: 711

We accept all relay calls. Ask for PSA Sales.

PacSrc.co/psa-quote