

# Health Reimbursement Arrangements (HRAs)

*The smart solution.*



## Choice. Flexibility. Cost-control.

If these are features you're looking for in a benefits package, consider the advantages of a health reimbursement arrangement (HRA). Known as consumer-directed plans, HRAs can help you manage benefit costs while encouraging employees to make informed decisions with their healthcare dollars. So if you've been searching for an answer to rising health insurance costs, yet still want to offer your employees choice and control in their healthcare, a PacificSource Administrators HRA may be the answer for your organization.

## What is an HRA?

An HRA is a tax-favored, employer-funded health reimbursement arrangement. You, as the employer, decide what amount to allocate to employees for their healthcare expenses during a plan year. Employees then access those funds to pay qualified expenses. Some HRA plans include a built-in carryover provision that allows unused funds in one plan year to be used in a subsequent year.

Many companies pair the HRA with a high-deductible medical insurance plan, and allow employees' use of HRA funds to pay expenses while they're meeting the deductible. Often, employers can fund the HRA with money saved on health insurance premiums simply by switching from a benefit-rich co-pay plan to an inexpensive high-deductible health plan.

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- An innovative approach to the current health insurance model
  - Gives employees choice and control in their healthcare spending
  - Helps you manage benefit costs
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## Key Features

- The arrangement is funded solely with employer contributions. Allocation levels are up to you.
- Contributions are used to reimburse medical care expenses that you define as eligible under your plan. You can allow a broad range of reimbursable expenses (medical, dental, vision, etc.) or you can limit eligible expenses to a smaller range (such as services subject to the medical insurance plan's deductible).
- Based on the HRA plan design you choose, unused amounts in an employee's account at the end of the plan year can be carried forward to the next plan year. As the employer, you decide whether you'll allow account balances to roll over. You can also set limits on the rollover amount if you wish. Allowing some level of carryover gives employees an incentive to spend wisely and avoids a "use-it- or-lose-it" spending spree at the end of the plan year.
- You are billed only 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.

## Advantages of an HRA

- It gives your employees choice and control over their healthcare spending.
- It puts employees in touch with the true costs of healthcare and encourages them to become better consumers.
- It can help you control benefit costs by offering an inexpensive, high-deductible health insurance plan plus first-dollar coverage through the HRA.

HRAs allow you a great deal of flexibility as the plan sponsor. In setting up your HRA, you'll decide:

- Whether the employee will be responsible for any expenses before the HRA funds can be used
- How much to allocate to each employee's account
- Whether you'll allow unused funds to carry over at the end of the year, and if so, how much can be carried forward
- What types of medical expenses will be reimbursable

## How it Works

You work with your insurance agent and a PacificSource Administrators representative to choose an HRA plan design for your organization.

1. PacificSource Administrators sets up your HRA account according to the plan you've chosen.
2. As your employees incur medical expenses, they send them to PacificSource Administrators for adjudication and reimbursement.
3. Once a month, PacificSource Administrators will bill you for the value of claims paid for the month.

# Questions and Answers

## Who is eligible to participate in an HRA?

Most employees are eligible to participate in HRAs. According to IRS guidelines, anyone with two percent or more ownership in a schedule S corporation, LLC, LLP, sole proprietorship, or partnership may not participate. Your PacificSource Administrators representative will work with you to resolve any eligibility questions.

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

No, the HRA itself can only be funded with employer contributions.

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

To a large extent, that's up to you as the employer. You can allow reimbursement of a broad range of health-related expenses by adopting the IRS Section 213(d) definition of allowable expenses. Doing so would allow HRA reimbursement of the same expenses allowed under a healthcare FSA, including medical, dental, vision, and prescription drug expenses, as well as long term care and COBRA premiums.

Alternatively, you can set up your HRA to allow reimbursement of only certain types of health-related expenses. Many employers limit HRA reimbursements to expenses that are covered under their health plan but subject to the deductible. You might then consider offering employees an FSA to self-fund other expenses not allowed under the HRA, such as dental and vision care.

## How much should I allocate for each employee?

As the employer, you have the flexibility to set your own HRA allocation amount. In general, we recommend funding the HRA at fifty to seventy-five 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.

## Is the HRA allocation based on a calendar year or a rolling plan year?

Based on our experience, we have designed our HRAs to coincide with your medical plan's deductible. This allows your employees to have funding when their medical deductible starts over. The HRA allocation is generally based on the HRA plan year. 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 would be prorated, and the full annual allocation would begin when you renew your plan.

## About Us

PacificSource Administrators offers a broad range of administrative benefits services, including self-funded insurance plans, flexible spending accounts (FSAs), health reimbursement arrangements (HRAs), premium-only administration, and COBRA/retiree administration. With more than 28 years experience in the Northwest, we pride ourselves on providing full program administration for the employer, informing employees as to how they will benefit, and providing education and prompt service to participants.

## Questions?

Not sure who to contact? PSA-TPA Sales and Service can help! Call us at (800) 422-7038 and ask for Sales or email us at [psasales@pacificsource.com](mailto:psasales@pacificsource.com).

## Our Commitments

### Quality

We are dedicated to providing our clients with efficient health plan administration, and fast, accurate claims payments.

### Superior Customer Service

We believe in establishing long-term partnerships with our clients based upon trust, service, and respect.

### Advanced Technology

Our state-of-the-art system provides a level of creativity and flexibility not currently available elsewhere in the TPA market.

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## **Can I define the HRA carryover amount?**

We do have HRA plan designs that allow for a carryover. You may set rules on the HRA carryover provision, and may choose to impose an annual carryover maximum. You may also cap the total HRA account balance if you wish.

## **Why do we prefund the HRA?**

Prefunding of the HRA allows PacificSource Administrators to pay claims as they are received. We then bill you once per month for claims reimbursed to bring you 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, the employer could divide the total annual HRA allocation and distribute it over 12 months, and allow employees to access only 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 medical expenses. The plan may be designed, however, to permit a terminated employee to be reimbursed for medical expenses incurred after the termination date.

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

We do offer a plan that includes reimbursement of COBRA premiums after termination.