

## FREQUENTLY ASKED QUESTIONS

- **Q: How will an HRA program benefit my company?**
- **A:** The benefit comes from reducing the health care expenses. Other benefits may come later as the employees learn better how to shop for health care providers.
- **Q: When must the plan be funded?**
- **A:** The plan may be funded up front, monthly, or on a pay period by pay period basis.
- **Q: Can an HRA be offered only to employees who are covered under the health care program?**
- **A:** An HRA may be linked to the health care program and provide its benefits only to those individuals covered by the health care provider. HRAs may also be extended to all employees on a nondiscriminatory basis.
- **Q: What is the biggest advantage of an HRA?**
- **A:** The biggest advantage is that the unused funds in an HRA may be rolled over to the next plan year. The “use it or lose it” feature of Section 125 plans does not apply.
- **Q: Can the employees be given cash, if they have funds remaining?**
- **A:** No. The current regulations do not permit a cash out option.
- **Q: Can you limit the benefits to an employee to the amounts already contributed, or must you provide the entire year’s benefit up front?**
- **A:** The benefits may be accrued each month or provided on the first day of the plan year.



### WERNTZ & ASSOCIATES, INC.

Shreveport	Tulsa
2020 East 70th Street	5800 East Skelly Drive
Suite 100	Suite 1235
Shreveport, LA 71105	Tulsa, OK 74135
Phone: 318-797-2554	918-663-4224
Fax: 318-798-3206	918-622-6907
Email: <a href="mailto:werntz@werntz.com">werntz@werntz.com</a>	<a href="mailto:werntz@tulsa-ok.net">werntz@tulsa-ok.net</a>
<a href="http://www.werntz.com">www.werntz.com</a>	



Actuaries, Consultants &  
Administrators  
for Employee Benefit Plans

## HEALTH REIMBURSEMENT ARRANGEMENTS

WERNTZ & ASSOCIATES, INC.

ACTUARIES, CONSULTANTS  
& ADMINISTRATORS FOR  
EMPLOYEE BENEFIT PLANS



# CONTROLLING MEDICAL COSTS

## WHAT IS AN HRA?

The exploding cost of health benefits, declining effectiveness of managed care arrangements, and general employee dissatisfaction with health benefits are the driving forces for change in health care delivery.

Health Reimbursement Arrangements are employer-funded plans that provide employees with an account balance that can be used to pay out-of-pocket medical expenses (like health FSAs can do). HRAs are employer funded outside of a cafeteria plan (no salary reductions or flex credits). The key provision of a HRA is that they can permit the carryover of unused account balances from year to year (unlike health FSAs).

The biggest advantage to an HRA program is that it will let the employee see the true cost of medical care. Each dollar that is paid for medical expenses will come directly from the employee's account. Any dollars that remain at the end of the plan year may be carried over to the next year for later use. This feature gives the employee discretion over the way that their health care dollars are spent.

## WHY AN HRA?

- ◆ As employers shift to higher deductibles and co payments to control costs, employees are left with ever increasing expenses. Employers may take some of the premium savings and make a contribution to an HRA to make employees aware of the true cost of health benefits. This feature may have the effect of lowering the experience of the medical plan and help to curb future rate increases.
- ◆ Employers who already have employer-funded medical or dental reimbursement plans with low limits may wish to add a carryover feature, so that unused amounts from one year are available in future years. (Employees who under utilize the plan will be rewarded with increased benefits in future years).
- ◆ Some employers may wish to establish an HRA to provide a method for employer funded retiree medical benefits. Retirees can use (or carryover) the annual limits for out-of-pocket medical expenses or for retiree medical insurance premiums.

## PLAN DESIGN ISSUES

**Type of Plan.** HRAs may be integrated with your current medical plan or a high deductible plan, or maybe on a stand alone basis.

**Eligibility.** The class of employees eligible for the plan must be nondiscriminatory (Section 105(h)).

**Accrual Basis.** The HRA may accrue benefits on a monthly or annual basis.

**Expense Limitations.** The plan may limit the expenses covered, or it may permit any expense that is permissible under Section 213 (most medical expenses).

**HRA vs. FSA Ordering.** The plan may determine whether the cafeteria FSA or the HRA pays first.

**Spend Down Feature.** HRAs can allow terminated participants to spend down account balances without electing COBRA.

## HOW MUCH DOES IT COST?

The cost of an HRA program consists of the employer contribution, the administrative cost of the program, and the internal costs to set up and monitor the system. Many of these costs may be more than recovered by reducing the premiums paid toward health insurance. This may often be done without compromising the quality of the health care coverage to employees. We will provide a fee schedule for your plan upon request. Our staff is trained to help minimize the effort required to maintain a first class benefit program. Let one of our experienced consultants show you how to reduce costs of health benefits while maintaining the quality of those benefits.