

## **HRA plans, a viable alternative to Health Savings Accounts**

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Although often overlooked, Health Reimbursement Arrangement plans have been around for many years. Falling under IRS code section 105, HRA plans permit employers to pay the documented medical cost of employees and dependants exempt from the employees' taxable income and tax deductible to the employer, as a form of self-insurance.

HRAs are separate from Health Savings Accounts which have gained popularity in recent years and they are separate from IRS section 125 Medical Flexible Spending account cafeteria plans. Although covering the same types of expenses, if more than one plan is used simultaneously, a coordination of benefits provision must be incorporated.

HRA plans are funded by employers and can not be deducted from employee compensation. Employee account balances may be carried over from year-to-year or do not have to be, it is the employer's discretion when setting up the plan. Health care claim costs are paid from the general assets of the employer, a trust fund is not required. If employees have low claims, there is low cost to the employer.

Why implement an HRA plan and how does paying employee medical costs save the employer money? A typical Health Reimbursement Arrangement plan is used in conjunction with a high deductible group health insurance plan. Years ago, employers (paid for) provided employees with a group medical health insurance plan as a non-taxable fringe benefit. The insurance plan may have had a \$100 or \$200 deductible and then paid 80% to 90% of the medical claim costs and the employee responsible for the remaining 10% to 20%. With rapidly rising health care costs, implementing a HRA plan is one way to reign-in or cushion the impact of those rising costs. If the employer is paying for the health plan, any savings remain with the employer.

Ten years ago it may have been possible to change a group medical health insurance plan to a high deductible plan and the premium savings equaled or exceeded the cost of reimbursing the increased deductible back to the employee, with 100% of the employees reaching the maximum deductible. Depending on group size, actuarial studies show that not everyone will reach the maximum deductible claim costs each year, providing the expected savings in group medical coverage. With increased popularity of HRA plans and the newer HSA plans, insurance carriers have since stiffened their premium pricing model, but the savings remain sufficient to make an HRA plan a worthwhile alternative.

As an example; an employer provides a major medical insurance policy with \$500 annual deductible, 80%/20% coinsurance that costs \$600 per month, \$7,200 per year, per employee. A policy with \$2,500 deductible and 100%/0% coinsurance can be procured for \$475 per month, \$5,700 per year, per employee for a savings of \$1,500 per year. For ten employees, the savings would be \$15,000. Implementing an HRA

plan that reimburses up to \$2,000 per employee could potentially cost \$20,000 for a net loss to the employer of \$5,000. If ½ of the employees hit the maximum deductible and ½ don't, the claims cost is \$10,000 from the \$15,000 savings yielding a net \$5,000 gain to the employer. The more likely scenario is a few employees hit the maximum, a few employees have no claims and the rest have some claims, but less than ½ the total deductible, still yielding a net gain for the employer.

Also remember in this example, that there was a change from an 80/20 coinsurance to 100/0 coinsurance policy. With the original plan, if an employee had \$3,000 in medical costs, she would have to pay for the \$500 deductible claims and 20% of the cost over \$2,500, or another \$500 for total cost of \$1,000. Under the 100/0 coinsurance plan, the employee only pays \$500 deductible cost and the employer through the HRA plan pays \$2,000 in costs and the insurance company pays the last \$500. The employee gets a better total health plan at the same time the employer is reducing or minimizing his total employee health care fringe benefit costs.

You still have to factor in administrative costs which can be less than \$50 per employee per year, and the effect of family coverage and family reimbursements on the plan.

The mechanics of an HRA plan are simple. The employee and/or medical provider submit medical claims to the insurer. The insurer takes their PPO Network discounts and applies the allowable charges to the deductible and reports it to the employee and the provider on an "Explanation of Benefits" form. The employee submits the insurance company EOB form to the HRA plan administrator. The HRA plan administrator processes the claim and prepares a HRA plan EOB and drafts a reimbursement check (from the designated employer account). Some medical providers are willing to wait for the second HRA plan EOB and reimbursement check payment and other providers require payment up front by the employee and then the employee keeps the reimbursement. All claims decisions; approvals, denials, and appeals are handled by the insurance company. If it is approved by the insurance company and applied to the deductible, it is approved by the HRA plan. If the claim is denied by the insurance carrier and not applied to the deductible, it is denied by the HRA plan.

There are lots of third-party administrators of HRA plans available. Generally, for a fixed fee they provide a "boiler-plate" plan document to get started, and then for regular monthly fees they administer the plan, receiving claims, and calculating and processing benefit payments.

As with all plans, you should check detailed regulations and consult with your legal or tax advisor before implementing an HRA plan.