

HEALTH REIMBURSEMENT ARRANGEMENT (HRA) ACCOUNTS

DEFINITION

An HRA is an employer-sponsored account offered to employees where distributions can be made to pay for qualified medical expenses, including deductibles and co-insurance amounts. Contributions to an HRA account are made by the employer only and not considered income to the employee.

HOW THEY WORK

The employer contributes a predetermined annual amount to each employee's account. The employee may use the funds in the HRA to pay for medical care; covered expenses are paid from the HRA until the HRA balance is exhausted. Any unused balances are carried forward to future years.

When an employee leaves an employer, HRA funds are not portable, however these plans are subject to continuation of coverage, in accordance with COBRA provisions.

ELIGIBILITY

These must be set up by an employer for the benefit of its employees. HRA accounts work in conjunction with high deductible health plans (HDHPs) or conventional PPO insurance plans. Self-employed individuals are not eligible for HRA accounts.

CONTRIBUTION LIMITS

While the IRS does not stipulate a limit on the amount of money the employee or employer can contribute to the accounts, the plan itself must prescribe either a maximum dollar amount that can be contributed to an HRA account.

DISTRIBUTIONS

HRA funds may currently be used to pay for qualified medical expenses and qualified health insurance premiums without federal tax liability or penalty.

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