

Pay Medical Expenses



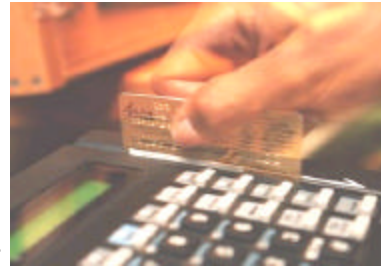
HRA

Health Reimbursement Arrangement

“More Choices for you and Your Employees”



Dental



Balance Rollover



Optical



Reducing Health Insurance Cost



flexsaveamerica.com

HRA

Cost Savings for You and Your Employees

What is a Health Reimbursement Arrangement (HRA)

Sometimes called defined contribution, personal care accounts, or Health Care Accounts, HRAs allow an employer-funded account to repay the unreimbursed medical expenses of employees along with an option to carry unused funds forward.

A HRA account may reimburse any or all the same expenses as a Section 125 Flexible Spending Account (FSA) and reimbursements of qualified medical expenses are *tax-free*.

Unlike an FSA, where the IRS requires the annual election to be available on the first day of the plan year, only a portion of the HRA limit is added to each account once per month or pay period. This means no surprises and no big hits to the employer's checkbook. The employer will only be liable for a portion of each employee's HRA annual limit.



What benefits can an employer include in an HRA Plan?

- 1** Medical expenses not covered by insurance. Typical expenses include insurance co-pays and deductibles, eye exams, eyeglasses, eye surgery, contact lenses and solutions, dental visits, orthodontic care, medical examinations, mental health care, chiropractic services and prescription drugs.
- 2** Insurance premiums. Health insurance provided by the employer, individually-owned policy premiums, or long term care insurance premiums may be paid from the HRA plan.

What happens to the money that an employer puts into the HRA?

An employer establishes an HRA by adopting a formal plan distributing a Summary Plan Description (SPD) to all eligible employees. The SPD describes, among other things the amount of money available in each employee's personal account for the coverage period. As eligible expenses are submitted, the employee's personal account is reduced and paid to them on a non-taxable basis.

In Addition, at the employer's option, the plan can be designed such that dollars not spent by employee's can be rolled over to the employee's expenses in a future year.





HRA

It Benefits You

Your company will recognize the following savings with an HRA Plan.

- 1** Combining a higher deductible insurance plan with an HRA plan can lower your company's health insurance costs.
- 2** An HRA Plan can help lower prescription drug costs.
- 3** Your company's retirement retiree benefit costs could be capped or reduced.
- 4** Administrative costs are tax deductible and can be paid by you, your employees, or a combination of employee/employer dollars.
- 5** Unused employee account balances can be rolled forward each year or forfeited by employees, depending on your benefits strategy.
- 6** Compliments your FSA plan and enhances FSA plan participation levels.

It Benefits your employee's

The reimbursement of qualified medical expenses to an employee is not taxed. The employee will save:

- 1** Federal income tax.
- 2** State and local taxes (where applicable).
- 3** Social Security tax (assuming the employee's salary is below the maximum social security wage base).



How an HRA works with an FSA plan

Why maintain a section 125 flexible spending account (FSA) if an HRA is created? An FSA and an HRA both reimburse employees for eligible medical expenses. It's simple – more employee choices and flexibility.

One size does not “fit all” and an HRA would not be established to cover every employee’s medical expenses. In other words, while one employee may have unreimbursed medical expenses of \$500 per year, there are other employees with a greater need. Let’s look at an example.

An employer sets up an HRA and makes available each year \$1000 per employee. This coincides with the implementation of a higher-deductible (1,500) group insurance plan. Employee A estimates his medical expenses for the year at \$3,500. This includes such things as glasses and contact lenses that are not covered by the group health plan.

With only \$1,000 available through the employer funded HRA, this employee is looking at paying for at least \$2,500 of medical expenses with taxed dollars. Unfortunately, he has to earn over \$3,400, before taxes, to pay these bills.

With an FSA, the employee gets to customize the amount to be reimbursed to him on a tax-free basis. The employee will set aside \$2,500 of untaxed wages through the employer’s FSA plan and the employer will reimburse \$1,000 worth of medical expenses through the HRA plan.

Medical Expenses	Annual Expenses	FSA Reimbursement	HRA Reimbursement
Co-pays	\$ 300	\$ 300	
Deductible	\$ 1,500	\$ 500	\$ 1,000
Glasses	\$ 500	\$ 500	
Orthodontics	\$ 1,200	\$ 1,200	
Totals	\$ 3,500	\$ 2,500	\$ 1,000

HRA Plan Design Options

? **Bridge.** The Bridge Plan compliments a higher-deductible insurance product. It pays only for deductible items covered by insurance and provides a bridge between out-of-pocket expenses and insurance coverage.

? **Comprehensive.** The comprehensive Plan pays all medical expenses not covered by insurance. These expenses include, but are not limited to, dental and vision fees, chiropractic services, co-pays, deductibles, and insurance premiums. This plan could be coupled with a higher-deductible or limited coverage insurance arrangement or as an additional employee benefit.

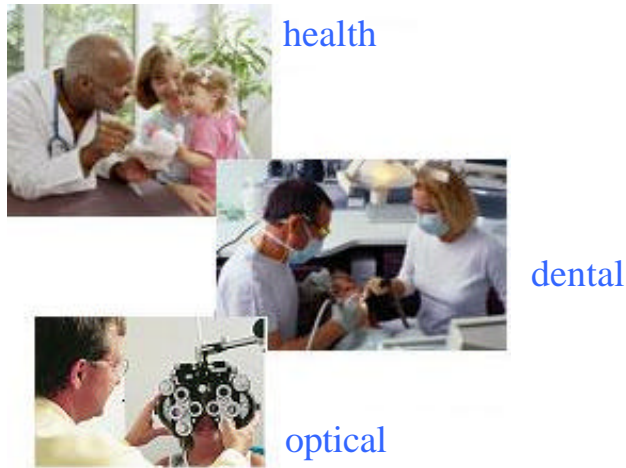
? **Limited.** A limited HRA covers only a group of expenses such as dental or vision. It can also be restricted to a single medical expense like prescriptions.

? **Insurance Only.** The insurance Only Plan Allows employees to pay for employer-provided insurance coverage or individually owned policies for health, disability, or long-term care insurance.

HRA Plan Design Options

Plan design options are flexible. HRAs may be designed to roll unused balances forward from one year to the next, or forfeit to the employer at the end of the coverage period. The plan may, but is not required to cover terminated or retired employees.

Keep in mind that the above plan design options can be achieved with a single Section 125 Cafeteria Plan. You may want to consider providing Flex Credits through your FSA plan. It's easy and convenient to provide all benefits through one delivery system, and keep administration to a minimum.



Who can sponsor an HRA Plan?

Regular corporations, partnerships, S corporations, Limited Liability companies (LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on taxes by establishing an HRA plan.

While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation from participating in the HRA plan, they may still sponsor a plan and benefit from the savings on payroll taxes. "Employee" shareholders of regular corporations may also participate.

An HRA can cover current employees, allow former employees to participate and permit retirees continued access to unused account funds.

Important Information!

- The plan must be in writing and a Summary Plan Description must be distributed to each plan participant.
- COBRA continuation forms should be provided to all terminating participants in the medical reimbursement portion of the plan.
- If disability insurance is paid on a pre-tax basis, benefits received from the insurance carrier by the employee may be taxable. Under most circumstances, it is recommended that disability insurance not be included in the plan.
- No more than \$50,000 of employer sponsored group term life insurance may be provided to employees on a pre-tax basis.
- Insurance products with a return-of-premium feature cannot be paid for on a pre-tax basis.
- The plan may not discriminate in favor of highly compensated employees.
- Employers are required to pay eligible medical expenses only to the extent of an individual's account balance.
- Generally, employers maintaining HRA plans that cover more than 100 participants must file an IRS Form 5500 each year.
- HRAs can be restricted to cover only certain benefits, like prescriptions, or co-pays and deductibles.
- Eligible expenses must be incurred during the participant's period of coverage, but may be reimbursed at a future date. This is a plan design feature.
- The HRA cannot be "cashed out" upon an employees termination or retirement. The fund must always be used for qualified medical expenses.
- Plan design options are flexible. HRAs may be designed to roll unused balances forward from one year to the next, or forfeit to the employer at the end of the coverage period. The plan may, but is not required to, cover terminated or retired employees.

Getting started is easy!



Contact FlexSave at bfaber@flexsaveamerica.com for more design options and money saving strategies for your business.

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