HRA -Health Reimbursement Arrangement-

June 2002

Rev. Rul. 2002-45

IRS Notice 2002-45

It's the old Medical Reimbursement Plan or Sec 105 Plan polished up

HRA Summary

- HRA must be funded solely by employer
- No employee contributions
- HRA can only reimburse substantiated medical care expenses under Code Sec 213
- For employees, spouse and tax dependents or former employees and retirees (unless excluded)
- Claims after plan inception
- No cash out of unused account
- May allow terminated employees to file claims against balance
- Benefit subject to COBRA

Stand-Alone HRA

- No requirement to participate in the group insurance
- Benefits available to all who meet eligibility requirements

HRA + HDHC Arrangement

- HRA benefit requires insurance participation
- Typically high deductible policy
- ▶ Define deductible level or out of pocket limit

How To Establish an HRA

- Adopt a plan document
- Communicate to employees

Eligible Employees

- May have minimum age and service for employees to be eligible
- Must be a C-Corp for owner participation
- Excludes self-employed, partners, and more than 2% Sub-S shareholders

Spouse & Dependents

- May be covered or not<u>Eligible expenses</u>
- See Publication 502 at www.CafeteriaPlan.com
- May also allow health insurance reimbursement (possible HIPAA problems)
- Design options: Have a deductible.

 Reimburse 80% of out of pocket expenses

Spouse & Dependents continued

Annual Limit

- No limit
- Amount chosen may be available Jan 1, or accrued monthly
- Reimburse only up to accrual (no advance funding like Cafeteria Plan)

Year End Carry Forward

▶ Big advantage, but not required. May cap the carryover amount

Forfeit vs. Spend Down

Employer may choose to forfeit unused amounts on termination or allow employee to spend down COBRA. Must be offered either way

Year End Carry Forward continued

Funded vs. Unfunded

Most unfunded. Paid from company assets. Funded requires trust reporting. VEBA plan doc + Sec 419 & 419A deduction limits

Single/ Two Party/ Family

Possible, but beware of discriminationAdministration Costs

HRA may fund administration costs for retired or terminated employees

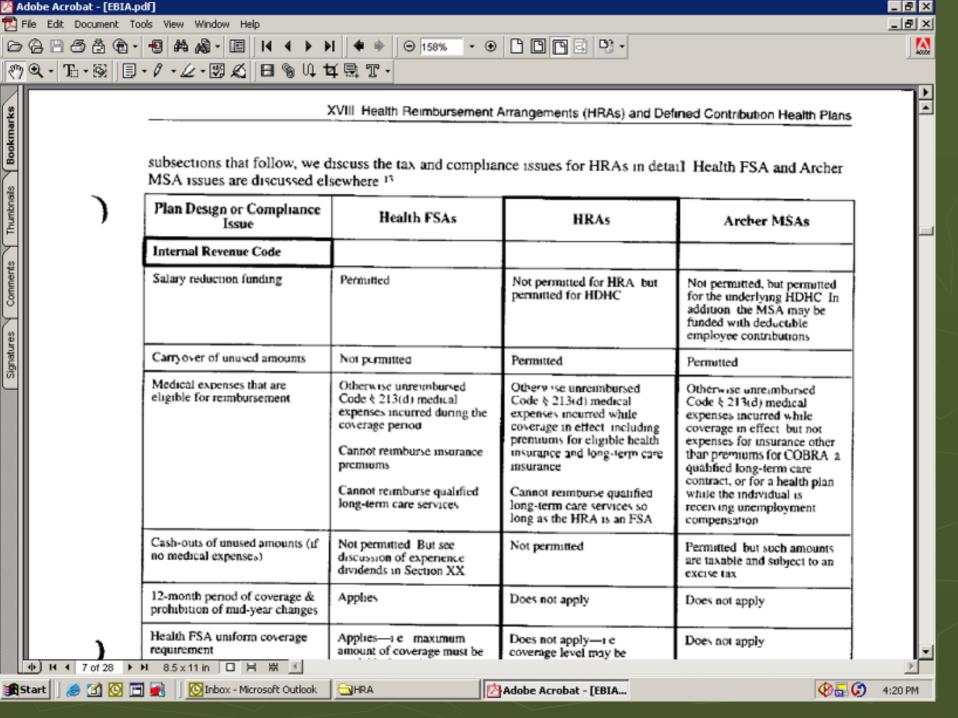
Claims Substantiation/COBRA

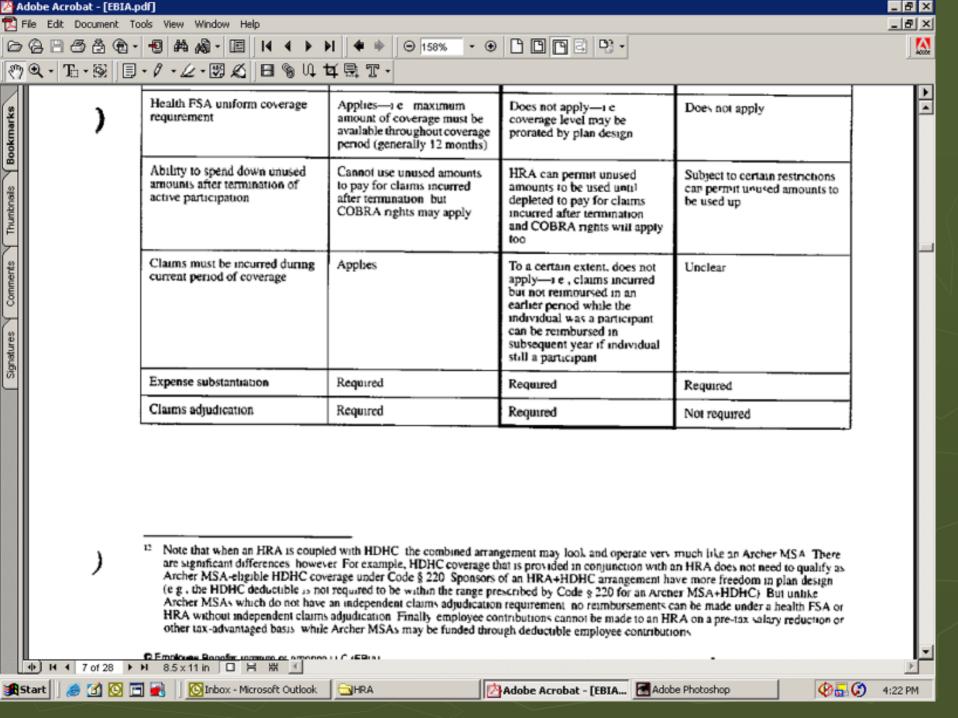
- Same as Cafeteria Plan. Requires full documentation prior to reimbursement
- COBRA
- HRA is a group health plan subject to COBRA
- May design plan to link COBRA election of insurance & HRA (can't take HRA without insurance)
- Terminated employee on COBRA gets new annual employer contribution
- Employee has \$3,000 HRA account and gets divorced. Spouse may elect COBRA and also get \$3,000. Annual HRA accrual goes to both.

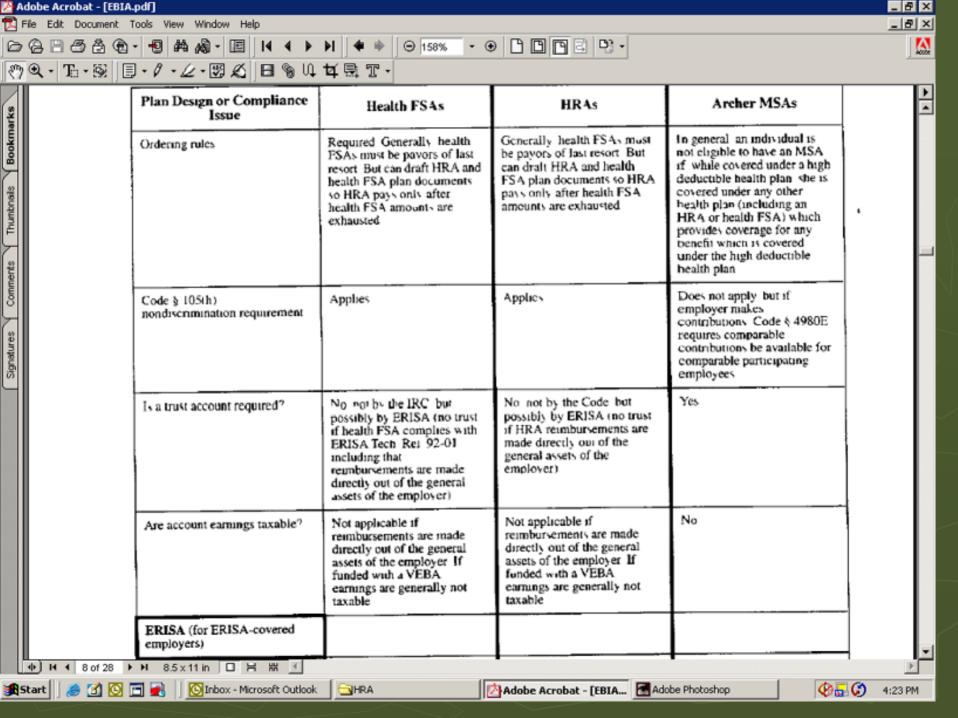
Claims Substantiation/COBRA continued

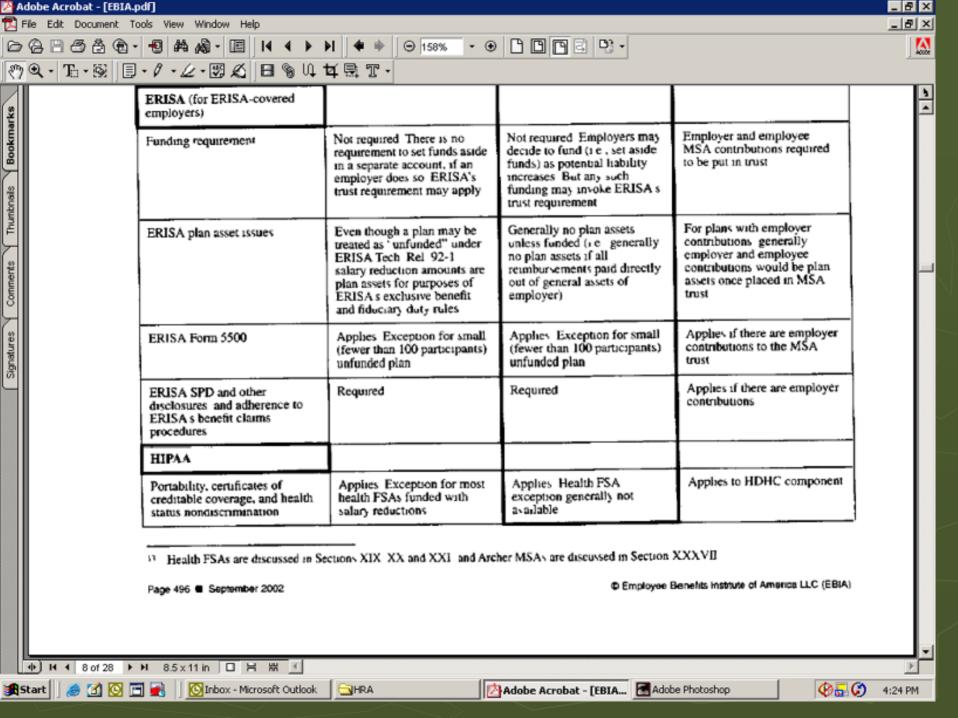
Determining COBRA Premium

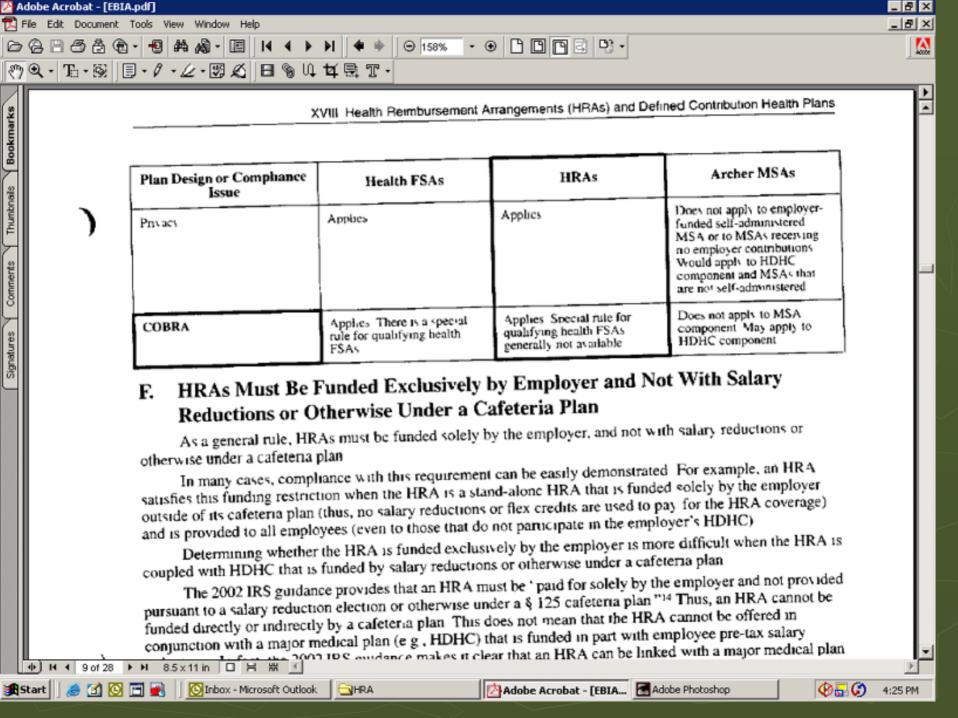
- This one gets fuzzy
 - HRAs must satisfy non discrimination requirements of Sec. 105
- May not discriminate as to eligibility and benefits. May not base reimbursement on compensation, age or years of service











Presentation Copies

To download a copy of this presentation, head to:

www.CafeteriaPlan.com/HRA