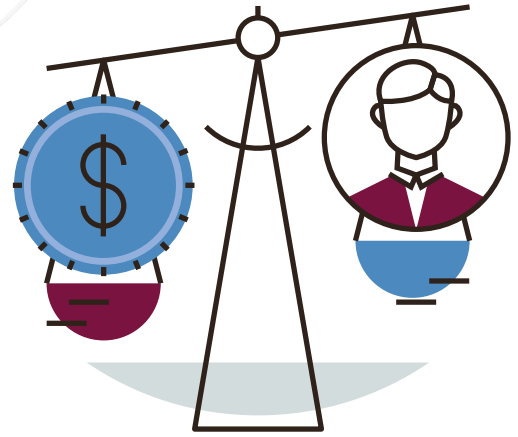




How to Manage Cost Increases with Health Reimbursement Accounts

Best Practices Guide to HRAs





Introduction

Employers are faced with balancing rising healthcare costs and maintaining a competitive market position to attract and retain talent. It's a moving target, but there are strategies employers can take to achieve both goals.

Balancing rising costs while maintaining a competitive market position

According to Kaiser Family Foundation, in 2018, employers paid an average of \$14,000 in premiums for family coverage and an average of \$5,500 for single coverage premiums.

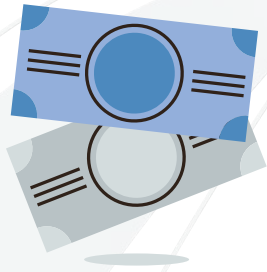
As premiums continue to rise, the cost can be balanced by leveraging tax-advantaged benefit accounts. These accounts reduce your tax burden and help your employees bridge the gap between insurance and out-of-pocket expenses. One of these accounts, a Health Reimbursement Account (or HRA), gives employers full control over funding and plan design.

How you and your employees can save

In this resource, you will be given strategies to offset healthcare costs and effectively attract and retain talent using Health Reimbursement Account. We'll provide information on how HRAs work, plan design best practices and communicating the benefits of an HRA to employees.

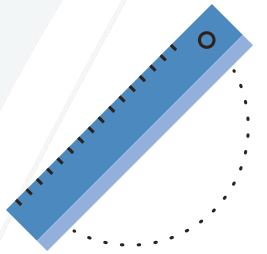
How HRAs Work

An HRA is built around three basic components: funding, rules and coverage.



FUNDING

A Health Reimbursement Account is a funding arrangement where an employer provides an allotment of funds to employees to aid in paying for eligible out of pocket expenses. This is a deviation from the typical approach to pre-tax accounts, which is to offer employees the chance to contribute funds through payroll deductions.



RULES

In addition to their funding structure, HRAs are also unique in that they grant employers an unusually high level of flexibility when it comes to creating plan rules.

Employers can control multiple factors, including:

- How much will be allocated to employees and what causes the amount to vary
- What categories of expenses are eligible for reimbursement
- What happens to funds at the end of the plan year
- The time frame when claims need to be incurred and submitted for reimbursement

This is only a sample of the parameters employers can control. Another element of HRAs that employers control is who can use the HRA or who the HRA covers.



COVERAGE

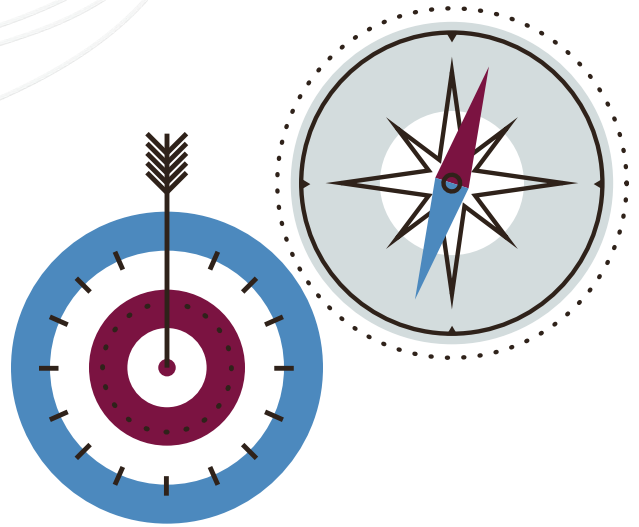
HRAs can be designed to cover only an employee or an employee and their dependents. In order for dependents to be covered by an employee's HRA, they must be enrolled in a group health plan.

Now that you understand the three basic components of HRAs, the next step is to apply them to develop an HRA that suits your needs.



Less than
50% of
people
understand that
employers or plan
sponsors set the rules
for HRAs.*

* Results from the 2018 BRight Ideas quiz



Plan Design Options and Best Practices

There are many options for plan design. While it would be difficult to cover all of the alternatives, we will highlight several best practices to guide you through developing an HRA that meets your needs.

Developing an HRA that meets your needs

The first step is to set a goal. Ask yourself: “What do I want to accomplish with this HRA?” Common goals include:

- Addressing a shift in cost-sharing
- Managing employees’ out-of-pocket risk
- Making employees accountable for initial expenses

There are multiple ways to achieve these goals. As you are working to determine your goal, you will also want to consider your budget. One of the best methods to manage your budget is a defined contribution approach. This approach sets an amount the employer is paying regardless of the plan selected by employees. For HRA purposes, this splits the defined contribution between premiums and HRA funding.

Once you know what your goal is, the second step is to choose a plan design.

STEP 1

Determine
what you want
to accomplish
with the HRA

Common HRA Plan Designs

There are five main types of plans: Simple, Medical Only, Co-insurance, Co-pay and Deductible. (See the illustration on the following page for a break down of the elements that make up each plan).

Of those five, two of the most popular HRA plan designs are a Simple HRA and a Deductible HRA.

Simple HRA

A Simple HRA satisfies three conditions:

1. It pays for all medical, dental and vision expenses.
2. Funds can be set up to roll to the next plan year or to be forfeited.
3. It allows either an FSA or the Simple HRA to pay early out-of-pocket expenses. However, it is most common to have the FSA pay initial expenses to prevent any loss of those funds.

The high level of flexibility and control provided by the Simple HRA make it a popular plan design choice.

However, one of the limitations of a Simple HRA is that it lacks compatibility with a Health Savings Account (HSA). In order to offer compatibility with HSAs, a Deductible HRA is a great option.

Deductible HRA

A Deductible HRA allows employers to set a deductible that needs to be met before the HRA can be used to pay for out-of-pocket expenses.

One of the most popular Deductible HRA plan designs is a Post-Deductible HRA because it is HSA-compatible.

A Post-Deductible HRA is designed to pay expenses only once the minimum statutory deductible requirements for an HSA are met. It is a great way contribute funds to employees that have high medical expenses and need extra help without making direct contributions to the HSA.

STEP 2
Select Your
Plan Design

Five HRA Plan Designs

Simple



What does it pay? All 213(d) expenses

How are funds handled? Roll over or forfeit

Which pays first? FSA or HRA, but typically FSA to prevent the loss of FSA funds

Is a card offered? Yes

Medical Only



What does it pay? All MEDICAL expenses

How are funds handled? Typically forfeit, aligns with insurance plan year

Which pays first? FSA or HRA

Is a card offered? Yes

Co-insurance



What does it pay? A PERCENTAGE of expenses

How are funds handled? Roll over or forfeit

Which pays first? HRA

Is a card offered? Maybe

Co-pay



What does it pay? A fixed amount

How are funds handled? Roll over or forfeit

Which pays first? HRA

Is a card offered? No

Deductible



What does it pay? Once an initial deductible threshold is met

How are funds handled? Typically forfeit

Which pays first? HRA

Is a card offered? Maybe

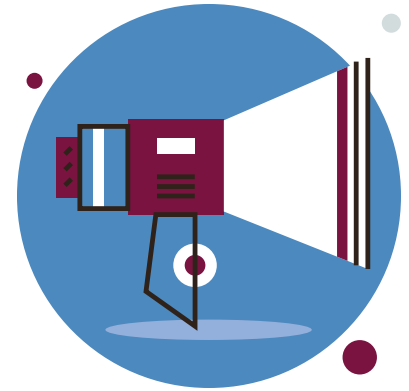
A final word on Plan Design

At the beginning of this section, we addressed setting up goals for your HRA. At this point, you probably have an idea of which plan design will work best for your company. As you're thinking through your options, remember these general guidelines: If you are not sure which plan design will work best for your company, that's fine. Always start with your goal and your budget. You can also take these general plan design options into consideration:

- **Shared responsibility:** Using a percent of expense or co-share arrangement can demonstrate a partnership between employees and employers. Employers set a certain percent or dollar value that will be paid from each expense.
- **Post-deductible benefits:** Employees take initial responsibility for expenses while employers assist as costs rise above the deductible.
- **General assistance:** Employers allow the HRA to be used for all eligible 213d expenses. This provides employees with general assistance in managing their out-of-pocket medical expenses.

For more information on plan design, visit the [Enrollment Overview](#) section on www.BenefitResource.com and download our [FREE Plan Design Cheat Sheet Package](#).

Once you've made your choice for an HRA plan design, how do you communicate it to employees?



Want to
know
more?

Go to
BenefitResource.com
and visit the Employer
Resources page.

You can [download
the free Plan Design
Cheat Sheet Package](#)
(under Enrollment
Overview).

Visit today!

Communicating Your HRA to Employees

As an employer, an HRA is a benefit intended to directly help employees with their out-of-pocket medical expenses. It is important that employees recognize this as an employer-paid benefit and consider its value in their overall benefits compensation. There are dos and don'ts for an approach that will encourage this view.

DO: Let them know where to find information.

HRA participants should always refer to their plan documentation for additional guidance on what expenses are covered. Participants with Benefit Resource can find details regarding their employer's plan by accessing their Plan Highlights through the secure BRiWeb Login.

DON'T: Hide behind legal disclaimers

HRAs fall under the definition of a health plan. Under the Affordable Care Act, an HRA must provide legal plan documents, including a Summary of Benefits and Coverage. However, an HRA is not a standard health plan and can be misunderstood when defined by the required legal health plan template.

DO: Keep the message simple.

HRAs can be complicated. Use plain language to describe your HRA. Keep the message simple and answer the three key questions:

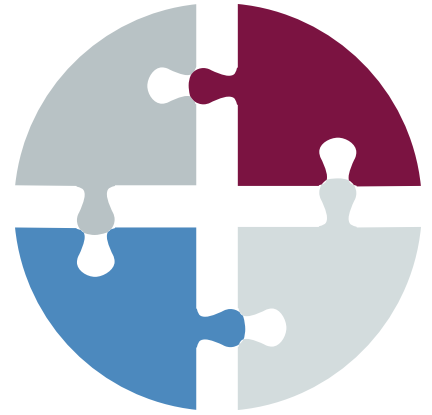
4. What is an HRA?
5. What is it used for?
6. How does it benefit me?

DO: Sign up for our newsletter and blog notices

We send a monthly newsletter to keep employers update to date on industry events and plan best practices. You can also sign up for our blog notices which are sent twice a week. The blogs feature a wide range of topics addressing how to manage costs and increase adoption in pre-tax plans. Previous HRA blogs include:

- [First-time HRA Account? How to avoid over-utilization and misuse](#)
- [Your Tax Guide to Pre-tax Benefit Accounts](#)
- [Top HRA Plan Challenges – What to know?](#)

STEP 3
Communicate
your HRA to
Employees



Putting it All Together

While Health Reimbursement Accounts can seem challenging at first, that doesn't need to stand in your way.

A pre-tax administrator like Benefit Resource can help you effectively balance costs and maintain a competitive market position using the three steps outlined in this resource.

Are you ready to implement a Health Reimbursement Account?

Start today. To schedule a personal consultation with a representative to discuss your plan designs, email us at info@benefitresource.com or give us a call at (585) 481-8263.

Stay Informed

Benefit Resource publishes new content weekly, addressing a wide variety of topics. Previous topics have included tax reform, what commuter benefit ordinances mean for your city, and how to avoid common COBRA pitfalls.

Participants can also find comprehensive educational pieces about their plans and difficult topics like COBRA and substantiation.

Stay informed by subscribing to our blog and monthly newsletter: The Beniversal Update.
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