

Health Reimbursement Arrangements (HRA) Frequently Asked Questions

A Health Reimbursement Arrangement (HRA) is an account created by your employer to cover eligible medical expenses. The HRA usually works in conjunction with a High Deductible Health Plan (HDHP) to reimburse employees for medical expenses deemed allowable by the IRS.

Who establishes and contributes to an HRA?

An HRA is funded solely through employer contributions and may not be funded through employee salary deferrals under a cafeteria plan. The HRA contributions are not considered part of the employee's income.

Who controls the use of the funds in an HRA?

Employers decide how much money to put in the HRA, and employees submit claims against these funds for expenses allowed under the HRA plan document.

What are the tax benefits of an HRA?

Employer contributions to an HRA are not treated as taxable income to the employee and the employee can spend the funds in the HRA to cover health-related expenses tax-free.

Can HRA funds be used to pay health expenses incurred by a spouse or dependent?

Under IRS rules, employers have the option of allowing current and former employees to use HRA funds for expenses of a spouse and/or dependents. Refer to your plan document for specific information on who is eligible.

May an HRA be offered in conjunction with a Health Insurance Plan?

An HRA is often established by the employer in conjunction with an HDHP for employees. However, an HRA may be paired with any type of health plan or used as a stand-alone account.

What type of expenses can be paid with an HRA plan?

The IRS allows HRA funds to be used for any item that qualifies as a medical expense under the Internal Revenue Code (except long-term care services). The employer establishes the parameters of an HRA and determines whether an employee can use the money in the HRA for any IRS qualified item(s) or only for medical expenses covered under the employer's health benefit plan. If the employer offers an HRA in conjunction with an HDHP, the employer will determine whether to cover preventive care expenses without requiring employees to meet the HDHP deductible.

What is an eligible expense?

An eligible expense is any healthcare expense incurred by a participant, their spouse, or dependent, that is approved by the IRS and eligible for reimbursement under the Plan as specified by the employer. In addition to out-of-pocket healthcare expenses, an HRA plan may or may not allow for the reimbursement of health insurance premiums. Please note that expenses reimbursed through the Plan cannot be itemized and resubmitted through an income tax return or any other benefit plan.

May an employee contribute to a Flexible Spending Account (FSA) if they have an HRA?

Employees are eligible to contribute to an FSA and an HRA. However, reimbursement is not allowed from both an FSA and an HRA plan for the same expense.

Do HRA claims need to be substantiated and how is this completed?

All HRA claims must be substantiated. At the point of plan establishment, the employer will communicate the process on how to substantiate a claim and how submit documentation for reimbursement.

What happens if there is money left in an HRA at the end of the year?

IRS rules allow employers to determine whether employees can carry over all, or a portion of unused HRA funds from year to year. Employers are not allowed to "refund" any portion of an HRA balance to employees.

May an employee take an HRA with them when they retire or change jobs?

IRS rules allow employers to specify in HRA plan documents whether HRA balances will be forfeited if an employee leaves the job or changes health plans. See the HRA Plan Document for any possible COBRA continuation coverage.