



Health Reimbursement Arrangement FAQs

Questions Frequently Asked By Employers

As you evaluate whether using an HRA (Health Reimbursement Arrangement) makes sense for your company, you'll likely have questions about how HRAs work. This document addresses common questions employers ask about HRAs and how they can offer them as part of a health benefit plan.

To help you find the information you need quickly and easily, questions are categorized as follows:

- General Questions
- Plan Design Questions
- Participation Questions
- Insurance Questions
- Compliance and Regulatory Questions
- Zane Benefits' HRA Platform Questions

General Questions

Q. What is an HRA?

A. An HRA is an employer-funded plan that may be used to reimburse employees for medical expenses, including health insurance premiums. An HRA is not health insurance, but can be used to supplement health insurance benefits and pay for a range of medical expenses not covered by insurance.

Q. What types of expenses are allowed for reimbursement through an HRA?

A. An HRA may reimburse any expense considered to be a qualified medical expense by the IRS, including premiums for personal health insurance policies. Within the IRS rules, employers may restrict the list of reimbursable expenses in any way they choose. For more information, see IRS Publication 502 or request a copy of *Overview of HRA-Reimbursable Eligible Medical Expenses*, published by Zane Benefits.

Q. Is there an HRA contribution limit (as there is for Health Savings Accounts?)

A. No. There is no limit to the amount of money an employer can contribute to an employee's HRA.

Q. Is there a minimum or maximum number of participants that must enroll in an HRA?

A. No. Federal regulations do not stipulate a minimum or maximum number of participants in an HRA. Zane Benefits serves clients of all sizes and can administer HRAs for a company of any size.



Q. What are the tax benefits of implementing an HRA?

A. Reimbursements made are tax-free to employees and tax-deductible for employers. HRA reimbursements are not included in employees' income and thus not subject to any income or payroll tax withholding. From an employer's point of view, the HRA reimbursements are deductible as a business expense, the same way as premiums paid for a group insurance policy or other benefits expense.

Tax deductions for HRA reimbursements received by employees who are proprietors, partners and some S-Corp shareholders are limited. See additional FAQs below.

Q. Can I set up an HRA for my family?

A. No. HRAs can only be created by an employer for the benefit of employees, former employees and retired employees. However, funds in the HRA can be used for expenses of these groups and their dependents.

Q. Can I roll HRA balances from year to year?

A. Yes. HRA balances may roll forward from year to year. Employers can prevent balances from rolling over; however, doing so defeats one of the HRA's advantages. Employers may not pay out unused HRA balances to any employee in cash or other benefits.

Q. What if an employee's claim exceeds his/her HRA balance?

A. Zane Benefits' HRA platform tracks and carries-forward unpaid balances until adequate HRA funds have been accumulated. If an eligible expense will exceed an employee's HRA balance, the employee may submit the claim immediately instead of waiting until sufficient HRA funds accumulate. The approved claim is paid off as HRA allowances accrue. Employees will continue to receive partial reimbursements until the entire claim has been reimbursed.

Q. Where do employers keep the HRA accumulated balances? Do they send the money to Zane Benefits or set up a separate HRA account to keep track of the liability?

A. HRAs are notional arrangements; no funds are expensed until reimbursements are paid. With a Zane Benefits solution, employers reimburse employees directly only after the employees incur approved medical expenses. Zane Benefits recommends employers pay reimbursements out of the employer's general funds (e.g., general purpose bank account) via direct deposit, payroll or check. The HRA liability is tracked in real-time on the employer's Zane Benefits HRA plan website.

Q. How should my accountant keep track of the HRA allowances?

A. For financial reporting purposes companies will want to accrue a liability on their balance sheets for the portion of unused HRA contributions that they believe will ultimately be used. Currently, no specific accounting standards exist for recording or specifically disclosing HRA liabilities. The most conservative treatment is to accrue 100% of the unused HRA contributions on the balance sheet date.

Employers are not required to report their HRA obligation to the IRS. Employers with more than 100 employees do need to report the total reimbursements made during the year on IRS Form 5500. Additionally, employers must include reimbursements paid to employees who are proprietors, partners and some S-Corp shareholders in these employees' gross income.



Plan Design Questions

Q. What defines an employee class?

A. Employee classes are defined by the employer and must be based on genuine job classifications. Criteria that may be used to define a class include job description, full-time versus part-time status, active versus retired status, geographic location and membership in a collective bargaining agreement (e.g. union). Employers may also give different benefits to employees based on the employees' choice of plan (e.g., an HRA may be available only to those selecting a high-deductible group plan or only to those opting out of a group plan).

Q. Can I offer an HRA to only my key employees?

A. All employees in the same class should be treated equally. An HRA does not have to benefit all employees so long as benefits offered to one or more classes of employees do not discriminate in favor of highly compensated individuals.

Q. Can I give different allowances to different employees?

A. Employees in different employee classes may receive different allowances and different benefits. All employees in the same class should be treated equally.

Q. How can I minimize my exposure?

A. Zane Benefits' reporting features make real-time monitoring of HRA liabilities, reimbursements and utilization easy. Employers can change plan benefits at any time, or cancel the entire plan at any time. Further, Zane Benefits' solutions allow employers to establish plan-year maximum reimbursements for any given category of expense (e.g., dental) and to establish a maximum balance that any participant class may hold at a time.

Q. How can HRAs be used for retiree health benefits?

A. Zane Benefits allows employers to keep their HRA open for retirees so these former employees may use HRA funds previously accrued. Employers may also permit retirees to accrue additional HRA dollars. Retirees are not required to pay taxes when they receive reimbursement for medical expenses from an HRA.

Q. How can I learn more about using employee classes in my HRA?

A. Offering varied benefits for different classes of employees is one of the main reasons you should set-up an HRA from Zane Benefits. Using employee classes turns your health benefit plan into a powerful compensation tool for employee recruiting and retention.

Ask your benefits advisor for a copy of *The Power of HRA Employee Classes* and *How IRS Rules Impact HRAs*, published by Zane Benefits, for more information on how to use employee classes in your HRA. You may also contact a Zane Benefits Health Benefits Specialist, who can answer your questions and demonstrate how Zane Benefits' HRA platform enables you to use classes to improve your benefit plan.



Participation Questions

Q. What are the advantages of setting up an HRA for owners of a sole-proprietorship, partnership, S-Corporation, or LLC (Limited Liability Company)?

A. IRS rules limit the deductibility of medical expenses for employees who are also business owners. Using an HRA from Zane Benefits enables business owners to secure all income and payroll tax deductions to which they are legally entitled. Additionally, Zane Benefits' HRA platform tracks expenses to provide information needed for federal and state income and payroll tax filings. Reimbursements made to employees of these companies who are not owners of the business are tax-free. All reimbursements made are tax deductible to the company itself. See *HRA Tax Savings For Business Owners*, published by Zane Benefits, for more information.

Q. Can I offer an HRA benefit to my independent contractors?

A. Zane Benefits' solutions make it easy to reimburse independent contractors for qualified medical expenses. Contractors who do not earn W-2 wages may still receive reimbursements but must report these reimbursements as taxable income. Independent contractors can go to the company's Zane Benefits HRA website to view their total income from reimbursements each year.

Insurance Questions

Q. What is the difference between group and individual health insurance?

A. Individual and group health insurance policies differ in terms of cost, coverage, and portability. In 45 states, individual policies are subject to medical underwriting, which makes them much less expensive than group policies for healthy individuals. However, individuals with adverse health conditions may not be able to obtain coverage. Group policies are more expensive but guarantee the same coverage to every participant.

Employer group policies may only be held by a company's employees. In contrast, individual coverage is not conditioned on employment, so employees keep their insurance policies when they change employers.

In most states, individuals who cannot secure individual coverage can obtain guaranteed coverage from a state risk pool at a cost somewhat higher than a group policy or from a spouse's group plan. Under HIPAA, employees who have at least 18 months of creditable coverage under an employer group health plan, have exhausted available COBRA coverage, and who are not eligible for another group plan must be accepted by an insurance carrier without medical underwriting.

Q. I don't want to leave my employees on their own for individual/family policies. How can I help them find insurance coverage?

A. Any employee participating in an HRA may learn about and shop for a personal policy online, or by calling his/her insurance agent, an insurance agency recommended by the employer, or an insurance carrier that offers plans in the employee's state. Your company's broker, benefits advisor, or Zane Benefits can also recommend trusted insurance partners as needed.



Q. Are individual insurance policies available in all states?

A. Individual insurance policies are available in every state. However, state regulations have removed some price benefits of individual policies in Connecticut, Massachusetts, New Jersey, New York, and Vermont. Using a group insurance plan with an HRA like Zane Benefits' GroupHRA™ may provide the best employer option in these states. In other states, Zane Benefits' ZaneHRA™ may also be an attractive option.

Your broker or benefits advisor will provide you with recommendations on how to balance regulations, locations, and budgets to create the optimal health benefits program for employees you have in these states.

HRA Regulatory Questions

Q. Can HRAs be used to reimburse individual insurance premiums in my state?

A. Any U.S. employer may create and use an HRA in any state to reimburse IRS-approved medical expenses, which include individual health insurance premiums. Some states have regulations that dictate how insurance carriers offer individual health insurance policies if the premium is being reimbursed or paid by an employer through an HRA or cafeteria plan. These carriers may disclose these limitations to individuals or families who apply for coverage. Your broker or benefits advisor can provide further information about the policies of specific insurance carriers in your state.

Q. Are HRAs subject to COBRA?

A. HRAs are subject to COBRA, which requires that employers with 20 or more employees provide terminated employees with the option to access HRA benefits for a fee (usually 102 percent of the cost of the benefits). Zane Benefits does not provide COBRA administration services, but does provide employers with guidelines on how to determine the cost of the HRA for COBRA.

Zane Benefits' HRA Platform Questions

Q. Can I administer my own HRA and still use your software? If so, is there a difference in price?

A. Zane Benefits gives you full control over your HRA plan design, which you may modify at any time. Technically, you (the employer) are the Plan Administrator. Zane Benefits processes claims for you. This service is included in the price of your Zane Benefits solution and may not be unbundled.

Q. Will you provide on-site training for our employees?

A. Zane Benefits provides customized welcome packets to your employees with easy-to-follow instructions for submitting claims and learning about their plan as well as unlimited online and telephone support. For large employers, Zane Benefits may provide on-site employee training for an additional cost-based fee.

