Employment Alert

How Employers Can Leverage Health Reimbursement Accounts

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A Health Reimbursement Account (***"HRA"***) is an employer's account. The HRA reimburses an employee for medical expenses and/or health insurance premiums. The employer contributes a fixed amount per period for each employee who participates in the HRA. Unused amounts can be carried forward to future years. The employer can let the account pay for spouses and dependents. For simplicity, this Client Alert refers only to employees.

Recent regulations let employers combine HRAs with health insurance in new ways. These "integrated" HRAs can solve some long-standing concerns:

- **A local company provides employees an HMO that does not offer good out-of-state benefits. It wants to add employees in another state. Possible solutions:**

1. Offer out-of-state employees a "premium only" HRA integrated with individual health insurance. The employees may use the HRA money to pay the insurance premiums.
2. Offer out-of-state employees a "premium only" HRA integrated with group health plans. Offer out-of-state employees, but not local employees, the choice of the HMO or any other group health plan. The company could offer an out-of-state group health plan, or could let each employee select another plan (such as a spouse's plan).

- **A company struggles to provide good health coverage because one branch has high claims. Possible solutions:**

1. Offer a group insurance plan for the low-risk branches. Then,
2. Offer the high-risk branch a Premium-Only HRA, integrated with individual health insurance. Depending on the number of employees who are eligible to participate in this arrangement, a minimum of 10-20 employees must be eligible for the HRA.
3. Place the high-claims division in a subsidiary. Offer the subsidiary's employees a Premium-Only HRA integrated with individual health insurance. Other subsidiaries could have traditional insurance. The subsidiary might not need a minimum of 10-20 employees who are eligible for the HRA.

- **Salaried and hourly employees with different compensation structures. Solution:**

1. Offer a Premium-Only HRA integrated with individual health insurance for hourly workers.
2. Then, offer a traditional group health plan for salaried workers. The plans need to satisfy various nondiscrimination tests and the Company must offer the HRA to a minimum of 10-20 employees.

- **A company worries that new employees' dependents might have unknown health risks. Solution:**

1. Offer new employees an HRA integrated with individual health insurance. Keep them on the HRA for several months or even a year. This plan can be offered regardless of the number of new employees who are eligible.
2. Offer longer-term employees a traditional group health plan.

- **Year-round and seasonal employees have different compensation structures. Solution:**

1. Offer seasonal employees a "premium only" HRA integrated with individual health insurance. It might need to offer the HRA to at least 10-20 employees, depending on whether the employees work part-time or full-time.
2. Offer year-round employees a traditional group health plan.

- **A company uses a local HMO for the Group Health Plan, but worries about out-of-network and out-of-area claims. Solution:**

1. Add an HRA sponsored by an Association Health Plan, trade group, or the parent company. The HRA could be written and administered by a third-party administrator. It could reimburse the employee for copays and out-of-network care up to the employee's account balance. The company would not have access to the employees' claims information.

- **A company cannot compete with larger companies that offer comprehensive health care. Solution:**

1. Offer both: a) A skinny and pricey group health insurance plan that does not cover spouses; and b) An HRA to an employee who enrolls in the spouse's group health plan. Contribute enough HRA money to cover the employee's share of the spousal premium. This could encourage employees to enroll in the spouse's health plan.

- **A company worries about the increasing cost of retiree health care. Solution:**

1. Offer retirees an HRA integrated with Medicare Parts A and B. The company could contribute the cost of the Part B premium. This may not be an option for older employees who continue to work at least 30 hours per week.

Each option is subject to several legal requirements that are not discussed in this summary. This Client Alert provides general information and is not legal advice. It does not create a lawyer-client relationship with the recipient.

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