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HEALTH REIMBURSEMENT ARRANGEMENT (HRA) FAQs

WHAT IS AN HRA?

A health reimbursement arrangement (HRA) is an IRS-approved, tax-advantaged health benefit that reimburses employees for qualified out-of-pocket medical expenses.

While sometimes called a health reimbursement account, an HRA isn't an account-based health plan. With an HRA, employers provide eligible employees a monthly allowance of tax-free money to spend on medical care.

HRAs are available to employers of all sizes that offer a traditional group health plan. Only employees on their employer's group health plan can use the HRA.

HRA FAQs

Q: Is a health insurance policy required to participate in an HRA?

A: HRAs require the employer to offer a group health care plan; employees must also participate in their employer's group health plan to take advantage of the benefit.

Q: Who can contribute to an HRA?

A: According to IRS regulations, HRAs can only be funded by the employer. Participants in the HRA aren't allowed to contribute — a distinction that often gets confused with HSAs and FSAs, which are accounts that allow for both employee and employer contributions.

As an additional rule, any funds an employer contributes to the HRA don't count toward the employee's gross income. Reimbursements are income tax-free as long as the employee has a health plan that provides minimum essential coverage (MEC).

Q: How much can be contributed to an HRA?

A: The HRA does not have a maximum contribution limit, so the employer can offer as little or as much allowance as they wish.

Q: Does the money in an HRA earn interest?

A: An HRA doesn't earn interest like a regular bank account or an HSA.

Q: Does an HRA roll over from year to year?

A: HRAs roll over monthly and annually.

Q: What are considered eligible expenses under the HRA?

A: Under IRS regulations, HRA funds can only reimburse an employee for eligible medical expenses defined in IRS Publication 502. Expenses can only be incurred by the employee, their spouse, and eligible dependents and must be incurred within the HRA's calendar year.

A few eligible expenses from IRS Publication 502 are:

- Deductibles, coinsurance, and copayments
- Vision and dental expenses
- Over-the-counter medicines, like pain relievers or acne treatment
- Prescription drugs
- Diagnostic services

Examples of non-eligible expenses include:

- Items that aren't listed in IRS Publication 502
- Items incurred by the employee, their spouse, or eligible dependents before an HRA's coverage effective date
- Items that can be reimbursed through any other source, such as an HSA or FSA

Q: Can HRA funding be used to pay for a family's medical expenses?

A: Yes, the HRA funds can pay for eligible medical expenses of the employee, their spouse, and any family member listed as dependent on their federal tax return. Per the IRS, as long as the employee and their spouse or partner are legally married and their HRA covers their dependents, they can have their expenses reimbursed.

Q: What is the maximum reimbursement under the HRA?

A: Employees can be reimbursed up to their total available balance at the time of service or when their claim is submitted online.

Q: What happens to the balance in the HRA if the employee terminates?

A: Because the HRA is employer-owned, HRAs are only for current employees. Unused funds stay with the employer if the employee leaves their job, is laid off, or retires.

We allow a 90-day grace period for the employee to submit reimbursement requests for any expenses incurred within the current calendar year while they were still employed.

Q: How does a standard HRA differ from an ICHRA?

A: HRAs are tied to a group health insurance plan, while an ICHRA is for those employers who don't offer a group health insurance plan, and their members must go out and buy individual-market insurance. ICHRA requires an attestation from the member each time they submit a claim.