

# HRAs: TAX-FREE HEALTH SAVINGS COMPLIMENTS OF YOUR EMPLOYER

## What Is a Health Reimbursement Arrangement (HRA)?

A health reimbursement arrangement (HRA) is an account employers can give employees. Employees use the account for reimbursements on qualified medical expenses. Unlike health savings accounts (HSAs) and flexible spending accounts (FSA), HRAs are both owned and funded by the employer.

### The employer decides:

- ▶ How much to contribute
- ▶ What expenses are eligible for reimbursement (within IRS guidelines)
- ▶ Whether funds roll over to the next plan year and if they do, what percent (unused funds can't be given back to employees)
- ▶ Whether or not employees leaving voluntarily can keep their balances\*

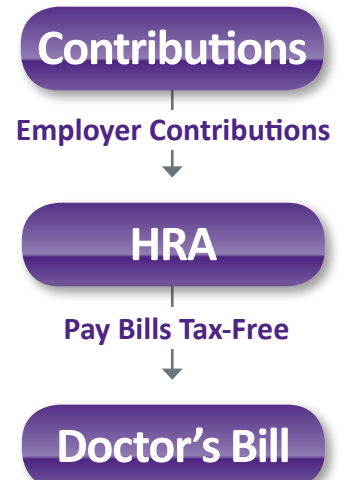
HRAs are usually provided to complement a high-deductible health plan (HDHP), but can be paired with any type of health plan or used alone. Once your HRA funds are gone, you pay all new and remaining expenses out of pocket.

## Why Should I Choose an HRA?

### An HRA Gives You Free Money

An HRA is a benefit that may be available from your employer. Contributions aren't deducted from your income and you don't pay taxes on the money your employer contributes. You contribute nothing and have tax-free money to use to pay for qualified medical expenses.

If your employer offers an HRA, there's no reason not to participate.



## Is an HRA the Same as an HSA or FSA?

An HRA is similar to, but not the same as, a health savings account (HSA). An HRA is fully funded by your employer; you can't contribute. An HSA can be funded by you and your employer up to maximum limits set by the IRS. An HRA is yours to use, but your employer owns the account and determines whether or not you lose any remaining balance at the end of the year, if you leave your job, or retire. An HSA is yours to use and keep, even when you change jobs or retire, any unused balances roll over to the next year, and all balances earn interest.

A flexible spending account (FSA) is fully funded by you with pre-tax money. Like an HRA, it's owned by your employer. You lose any remaining funds in an FSA at the end of the year or after a specified run-out or grace period.

All three accounts can be used for the same qualified medical expenses. However, with an HRA, your employer may determine the specific expenses that qualify.

## Who Can Participate in an HRA?

- ▶ Any employee whose employer offers an HRA and meets the employer's eligibility requirements can participate in an HRA.
- ▶ Employees participating in the employer's HSA and/or FSA can also participate in certain HRAs if allowed by the employer.
- ▶ If you're self-employed, you can't set up or contribute to an HRA.

## How Does an HRA Work?

When you have a qualified expense, you can either use a debit card provided by some plans and pay for expenses at the time you have them or submit expenses for reimbursement later. With a HealthEquity® HRA, you can also pay for claims or submit reimbursements directly from your online member portal.

- ▶ You can only use/receive reimbursements up to the amount in your account.
- ▶ Once your account is empty, you no longer receive reimbursements.

HRAs are primarily restricted to the plan year. There's typically a run-out period between the end of the plan year and the last day you can submit a reimbursement for the previous year. Some plans offer a grace period that allows you to both continue incurring expenses and submitting reimbursements after the end of the plan year. After that, any unused balance for the previous plan year goes back to your employer, unless your employer allows funds to be rolled over.

## Whose Medical Expenses Can I Pay for Out of My HRA?

### **Yours, Your Spouse's, and Your Dependents'**

In addition to your own medical expenses, you can use your HRA to pay eligible medical expenses of family members claimed as dependents on your tax return. Typically, eligible dependents must also be covered by your group health plan.

### **Domestic Partner**

If your domestic partner meets the IRS qualifications to be considered a tax dependent, you can use your HRA for his or her eligible medical expenses.



## What Kinds of Expenses Can I Use My HRA For?

You can use HRA funds to pay for qualified medical expenses as defined by the IRS, provided these expenses are allowed by your employer.

Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness. This doesn't include items merely beneficial to general health, such as a vacation or vitamins and supplements (unless prescribed).

### A Few Examples of Qualified Medical Expenses<sup>†</sup>:

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| <ul style="list-style-type: none"> <li>• Acupuncture</li> <li>• Alcoholism (rehab, transportation for medically advised attendance at AA)</li> <li>• Ambulance</li> <li>• Amounts paid for health insurance premiums</li> <li>• Amounts paid for long-term care coverage</li> <li>• Amounts not covered under another health plan</li> </ul> | <ul style="list-style-type: none"> <li>• Annual physical examination</li> <li>• Artificial limbs/teeth</li> <li>• Birth control pills</li> <li>• Body scans</li> <li>• Breast reconstruction surgery</li> <li>• Chiropractor</li> <li>• Contact lenses</li> <li>• Crutches</li> <li>• Dental treatments</li> </ul> | <ul style="list-style-type: none"> <li>• Eyeglasses/eye surgery</li> <li>• Hearing aids</li> <li>• Home care</li> <li>• Long-term care expenses</li> <li>• Medicines (prescribed and not imported from other countries)</li> <li>• Nursing home</li> <li>• Nursing services</li> <li>• Optometrist</li> <li>• Oxygen</li> </ul> | <ul style="list-style-type: none"> <li>• Stop-smoking programs</li> <li>• Surgery</li> <li>• Telephone equipment and repair for hearing-impaired</li> <li>• Therapy</li> <li>• Transplants</li> <li>• Weight-loss program (as prescribed by a physician for a specific disease)</li> <li>• Wheelchairs</li> <li>• Wigs</li> </ul> |
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**Note:** Your employer may decide to exclude expenses as it sees fit.

### Some of the Expenses That Aren't Qualified<sup>†</sup>:

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| <ul style="list-style-type: none"> <li>• Babysitting, childcare, and nursing services for a normal, healthy baby</li> <li>• Dancing lessons</li> <li>• Diaper service</li> <li>• Elective cosmetic surgery</li> <li>• Electrolysis or hair removal</li> <li>• Funeral expenses</li> </ul> | <ul style="list-style-type: none"> <li>• Future medical care</li> <li>• Hair transplants</li> <li>• Health club dues</li> <li>• Medicines and drugs from other countries</li> <li>• Nonprescription drugs and medicines (unless prescribed)</li> </ul> | <ul style="list-style-type: none"> <li>• Nutritional supplements, unless recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician</li> <li>• Teeth whitening</li> </ul> |
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<sup>†</sup>Distributions not used for qualified medical expenses are subject to income taxes.

<sup>†</sup>See the complete list in IRS Publication 502—Medical and Dental Expenses.