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Health Reimbursement Accounts

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What are Health Reimbursement Accounts (HRA's)?

Also referred to as Defined Contribution plans, Personal Care Accounts (PCA), Health Savings Accounts (HSA), or Health Care Accounts (HCA), HRA's are **employer funded accounts** that are used to repay employees for un-reimbursed medical expenses.

HRA's can be used to reimburse any or all of the same expenses as Section 125 Health Flexible Spending Accounts (FSA's). And while HRA's are funded by the employer with **tax deductible dollars**, reimbursements of qualified medical expenses are received by the employees **tax-free**. But unlike traditional Flexible Spending accounts, **unused funds can be carried forward from year to year!**

Employers like HRA's from a cash flow standpoint as well because while medical, dental and vision FSA's require participants to have access to their entire annual election amount on the first day of the plan year (the employer must front the money when there is a shortfall), HRA's are funded according to a predetermined schedule and participants can access only what is in their account.

What types of expenses can be reimbursed from HRA's?

Insurance Premiums – Employer provided as well as individually owned health insurance premiums along with long-term care insurance premiums may be paid through the HRA plan.

Medical Expenses – Insurance co-pays and deductibles, vision and dental expenses, and prescription drug co-pays that are not covered by insurance.

How does the plan work?

The HRA begins when the employer formally adopts the plan and distributes a Summary Plan Description (SPD) to all employee/participants. The SPD outlines the details of the plan, including the amount of money available to participants in their accounts as well as the period of coverage. As eligible claims are submitted, reimbursements are made **on a tax-free basis** and participants accounts are reduced by the amount of the claims.

As stated above, an especially attractive feature of the plan allows unused funds to be carried over to subsequent years to fund the employee's account.

Benefits of an HRA

EMPLOYER BENEFITS

- ✓ By combining a higher deductible insurance plan with an HRA, **you can lower your company's health insurance costs!**
- ✓ Administrative costs are tax deductible and can be paid by the employer, the employee or a combination of both.
- ✓ HRA's compliment FSA plans and help increase FSA participation.
- ✓ Employer contributions to HRA's are not subject to payroll taxes, workers compensation or pension & profit sharing contributions.

EMPLOYEE BENEFITS

- ✓ HRA's allow employees to allocate employer contributions to areas most beneficial to their individual needs.
- ✓ Disbursements from HRA's are not subject to Federal, State or Social Security taxes.



Who, What, Why, How and When?

Who can sponsor an HRA plan?

- "C" Corporations
- "S" Corporations
- Professional Corporations
- Partnerships
- LLC's (Limited Liability companies)
- Sole Proprietors
- Not-for-Profits



All of these types of companies can save payroll related taxes by instituting an HRA plan.

Although certain regulations prohibit sole proprietors, partners, members of LLC's (most cases) and more than 2% owners of an S-Corporation from participating in the plan, owners can still enjoy the payroll tax savings that result from sponsoring the plan. ("Employee" shareholders of "C" corporations are eligible to participate.)

Former employees and retirees can also be covered and continue to have access to unused funds in their accounts.

What else do I need to know?

- HRA's can be restricted to cover specific benefits
(Example: prescription drug co-pays, physician office visits, inpatient hospitalization deductibles)
- HRA's cannot be 'cashed-out' upon an employee's termination of employment or retirement
- Eligible expenses must be incurred during the employee's coverage period but can be reimbursed at a later date, depending on how the plan is designed.
- Plan design options are flexible to accommodate individual employer needs.
- Discrimination in favor of highly compensated employees is not allowed
- The employer is required to pay eligible expenses only to the extent of the individuals account balance
- The plan must be in writing and each plan participant must receive a copy of the Summary Plan Description
- Plans in excess of 100 participants are must file an annual Form 5500
- These plans are subject to COBRA continuation
- Insurance products with a "return-of-premium" feature may not be paid for on a pre-tax basis

Plan Design Options

Gap Plan

The 'gap' design compliments high deductible insurance products in that it only pays for deductible items eligible under the insurance plan, thereby filling the 'gap' between the employee's out-of-pocket expenses and the insurance coverage

Unrestricted

Pays all medical expenses not covered by insurance, including but not limited to; insurance co-payments and deductibles, vision and dental expenses and/or prescription drug co-payments.

Restricted

Coverage is limited or "restricted" to specific expenses such as office visits or prescription drug co-payments.

Rollover

Unused account balances roll-over and can be used in future years.

Refill

Benefit maximum remains constant and is replenished on an annual basis.

Why consider combining HRA's with a Flexible Spending plan?

Although HRA and FSA plans are designed to reimburse employees for eligible medical expenses, each offers its own unique features, benefits and limitations to both the employer and the employees. The expression "The whole is greater than the sum of its parts" certainly applies when these two plans are used in combination.

Here's an example:

- The employer saves money by going to a higher deductible (i.e. \$1,000) medical insurance plan, thereby saving significant premium dollars. The employer, in turn, contributes some of those savings (i.e. \$500) into the employee's HRA where the **tax-free** money is then used by the employee to offset some of the costs of the increased deductible.
- Employee #1 estimates her out-of-pocket annual medical expenses for her family will be \$1,500 for the upcoming year (i.e. prescription drug co-payments, vision expenses etc.). The employer funded HRA will pay the first \$500 of those eligible expenses, but the employee must still decide how to pay the additional \$1,000.
- The employee can defer \$1,000 (the actual dollar limitation set by the employer) into his FSA on a **pre-tax** basis and use those dollars to reimburse herself for eligible expenses throughout the year.

Ask us about our Flex Convenience Card!

*The simplicity of a
debit card...*



*...providing employees
immediate access to their
Flex and/or HRA dollars
without the hassle of claims
forms or waiting for
reimbursement!*

How is my plan serviced?

P&A Group Inc. provides all Implementation and Administration from our Corporate Offices located in Buffalo, New York. Including all the services you need to run your plan:

- | | |
|----------------------------|--|
| Plan Consulting | Experienced Benefit Consultants listen to your needs and determine the most efficient option(s) for you and your employees. |
| Plan Implementation | Our Implementation teams work 'in-sync' to process all necessary documentation to ensure smooth and successful plan set-up. |
| Plan Administration | Our staff of experienced administrators and customer service assistants monitor account balances and adjudicate claims reimbursements. Customer Service representatives are available by phone Monday-Friday, 8:30 am - 8:00 pm EST. |
| Participant Support | 24-hour automated phone and website access for account inquiries and maintenance. We also have a live chat room for immediate access to our knowledgeable and experience administrative staff! |
| Legal compliance | One of the many value-added benefits of working with P&A is our on-staff ERISA attorney who is available to respond to employer and participant inquiries and to insure that all plans are in compliance with IRS and Department of Labor rules and regulations. |

When can you get started?

Call now, it's as easy as 1....2....3....

- 1 Contact your broker/consultant or call P&A's Sales & Marketing department today at (800) 688-2611
- 2 Let us help you design a plan that works for you
- 3 Start saving money!

