

**HRAs Provide
Welcome
Glimpse of
Health-Care
Relief**

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by Carli Adams

The rapid increase in health-care costs has hit small business harder than any other segment of the economy. These cost increases have forced many owners to drop or decrease employee benefits. However, reducing or eliminating coverage puts business owners at a disadvantage in hiring and retaining employees. While long-term solutions are being considered in Congress, help has come from an unlikely source -- the U.S. Treasury.

In June, 2002, the Treasury Department and the Internal Revenue Service introduced a new program that combines accounts to accumulate money for medical expenses with a high-deductible health plan (HDHP). These accounts, called Health Reimbursement Arrangements (HRAs), are similar to MSAs but have key differences:

Employers do not have to pre-fund HRA accounts. Money is withdrawn after an employee makes a claim.

Companies keep any money in the HRA account if an employee terminates.

Any size company can take advantage of the plan.

There is no cap on the reimbursement amount and the plan design is flexible.

Only the employer can fund HRAs.

Administrative expenses are higher with HRAs, and so they may be more suitable for groups with six or more employees.

Perhaps most important, HRAs require employees to pay for health-care expenses. Many are used to paying a \$10 or \$20 copayment or modest deductible for services, giving them no reason to consider the costs they're incurring. Faced with sharing medical costs, employees may spend more prudently. They may decide a doctor visit or a brand-name prescription, for example, is unnecessary. The intent is not to prevent employees from getting care, but rather to encourage them to spend health-care dollars wisely.

How do I get started?

Step 1. Purchase a high-deductible health plan and determine your deductibles. For example, you may choose a \$2,000 deductible for an individual and a \$4,000 deductible for a family. (High deductibles may lower health-care premiums up to 50 percent.)

Step 2. Establish an HRA account. You can administer the HRA yourself, but most employers prefer to have a Third Party Administrator (TPA) administer claims so they're not consumed with paperwork and medical claims.

Step 3. Decide how much you'll reimburse your employees toward their deductibles. (You could choose, for example, to reimburse \$1,000 of an individual's \$2,000 deductible and \$2,000 of a family's \$4,000 deductible. Or you may decide to pay the entire deductible.)

Then decide:

Who will pay health-care expenses first -- you through your HRA contribution or your employees.

What fund amounts -- if any -- will roll over at the end of the year.

Whether employees can take the HRA funds with them if they leave.

Whether to limit the amount of money employees can accumulate over time and if so, what the figure will be. (You may allow the employee to roll over funds until they accumulate enough to pay their deductible. At that point, the account would no longer accumulate funds for the employee.)

Which claims you'll allow to be paid through the HRA. For example: medical claims only, medical and dental, or medical, dental and vision.

When choosing a high-deductible health plan, consider:

Deductible amounts for individuals and families.

What the plan covers once the deductible is met.

What network, if any, the plan includes and if it includes providers you want to use.

Will employees like HRAs?

HRAs offer a number of potential benefits to employees:

HRAs are employer-funded and depending upon the plan design, the employer may pay for benefits first.

If an employer pays an employee's deductible, the employee can use a debit card to pay for funded costs and will have no out-of-pocket expenses.

Most high-deductible plans use networks and, as in a PPO plan, employees get discounted rates when they visit a participating provider.

HRAs may cover many different medical expenses -- including dental, vision and more.

Employees manage their own care, selecting where they receive services.

If the employer chooses, employees who terminate can use HRA funds to buy COBRA coverage.

The employer may choose to roll over to the next year monies accumulated in an HRA -- tax free.

If permitted, employees can channel HRA funds into an investment account.

Employees may even save money with an HRA. If an employee's annual co-payments for office visits and prescription drugs exceed the plan deductible, they'll save the difference. If an employee has \$1,200 a year in co-payments and the plan deductible is \$1,000, the high-deductible plan carrier would pay the \$200 difference.

Who offers HRAs?

When the U.S. Treasury Department introduced HRAs, many product and service providers were already prepared to offer them. Other health-plan providers and TPAs have followed suit, giving a broad choice in suppliers.

For information on HRAs and HRA providers contact Clinton Perry with Unlimited Benefits: clint@unlimitedbenefits.com

HRAs give both the employer and employee an alternative to traditional coverage, allowing a free-market solution previously unavailable in the commercial health-insurance market. HRAs are not a panacea for the nation's health-insurance crisis. But together with high-deductible health plans, they offer small business owners the potential for lower premiums and customized plan designs. They also promote the important idea of employees sharing responsibility for their health coverage. In today's market, HRAs represent significant progress in the battle against rising health-care costs.