Agencies Propose New Health Reimbursement Arrangement Regulations

By Katila L. Howard / Nov 02, 2018

New proposed regulations expand the usability and availability of health reimbursement arrangements (HRAs). Under the proposed regulations, employers could provide an HRA that is integrated with individual health coverage and/or non-integrated HRAs that can be used to pay premiums for excepted benefits insurance. The proposed regulations were released in response to a Trump Executive Order issued last fall directing federal agencies to issue guidance on HRAs. The changes are proposed to apply for plans and taxable years beginning on or after January 1, 2020.

HRA contributions are funded with pretax dollars, and employees use these funds to pay for qualified medical expenses without paying taxes on the distributions. HRAs are exclusively employer-funded, and when employees leave the organization, their unused HRA funds revert to the employer. Up to now, traditional HRAs were required to be integrated with a traditional group health plan.

The proposed rules would allow two new types of HRAs. First the proposed rules would allow employers to provide an HRA that is integrated with individual health insurance coverage. If offered, workers can use individual integrated HRAs to pay premiums, including for traditional employer-sponsored insurance and for short-term health plans. Individual integrated HRAs must meet the following conditions to qualify:

Individual employees must be covered by a health insurance plan (not just their employer) or to opt out of the HRA;
The design of the HRA does not intentionally or unintentionally discriminate (to prevent risk shifting); and
Employees in the same employee class are offered an HRA on the same terms (the proposed rules includes additional information regarding allowable employee classifications).

Second, the employer would be able to offer non-integrated HRAs that can be used to pay premiums for excepted benefits insurance. Employers that offer traditional group health coverage could fund an HRA of up to $1,800 each year to reimburse employees for qualified medical expenses such as stand-alone dental visits. Non-integrated HRAs that qualify as excepted benefits must meet the following requirements:

- The HRA must not be an integral part of the plan;
- The HRA must provide benefits that are limited in amount by the rules;
- The HRA cannot provide reimbursement for premiums for certain health insurance coverage (such as individual health coverage, non-COBRA group coverage, or Medicare Parts B or D); and
- The HRA must be made available under the same terms to all similarly situated individuals.

Although the proposed regulations are intended to benefit small employers, employers of all sizes can utilize HRAs in connection with individual insurance policies and offer Excepted Benefit HRAs. The changes are proposed to apply for plans and taxable years beginning on or after January 1, 2020.

View the proposed rule here.

If you have questions about HRAs, your health and welfare benefit plans generally or about benefits compliance, contact a member of our experienced employee benefits team.

 |