



# Health Reimbursement Plans

A Health Reimbursement Plan (HRA) is an **employer-provided** medical reimbursement plan. HRAs may still be offered as long as they are integrated with an underlying group health plan. Effective January 1, 2014, an employer can no longer use a stand-alone HRA, including a Premium Reimbursement arrangement, to pay for **individual** health policies on a tax-free basis. (IRS Notice 2013-54)

While not a true HRA, in the past a common practice in many smaller churches was reimbursing a pastor for medical insurance costs incurred by being on a spousal employer's medical plan. The Affordable Care Act has made this illegal in some situations. Per a government notice in late 2014, employers may NOT reimburse premiums paid by an employee for an **individual** plan, pre-tax or post-tax. This includes state exchange plans. The employer (church) could be subject to a penalty equal to \$ 100 per day per violation if they do this.

As of this time it is still possible for employers to reimburse pre-tax the cost paid for qualified **group** coverage that is not already being paid pre-tax. This is most commonly done for a minister who has coverage through their spouse's employer. If a church uses a reimbursement approach for insurance premiums, the following five things should be elements of this method:

- a. It needs to be an adopted church policy.
- b. If the church has a group plan, the employer must reject coverage in that plan.
- c. The premium payments through the spouse's employer must be post-tax.
- d. The spouse's plan must qualify as a group plan through the Affordable Care Act
- e. The reimbursement must be on an accountable basis.

A true Health Reimbursement Arrangement (HRA):

- Must be integrated with an underlying group health plan
- Is funded solely by employers
- Reimburses employees tax-free for qualified medical expenses not covered by the group insurance
- Is funded up to a specified dollar amount per coverage period (usually per year)
- Must be non-discriminatory in reimbursement for all eligible employees
- Can help an employer provide quality benefits at potentially lower costs
- Allows some flexibility in design
- Reimbursements from the HRA are tax-free

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***The following is a brief description of HRAs from a CPA firm with extensive experience in working with churches and ministers:***

“Health Reimbursement Arrangements (HRA) are church-funded arrangements that reimburse employees for certain medical expenses on a tax-free basis, up to a maximum dollar amount for a coverage period. While some churches have paired their HRAs with coverage under a high deductible health plan (HDHP) or a non-HDHP, other churches have offered stand-alone HRAs (that is, HRAs not offered in connection with other group health plan coverage).

“The Affordable Care Act (ACA) includes reforms that limit the availability of HRAs beginning in 2014. Under these reforms, most stand-alone HRAs will be prohibited. Also, HRAs will not be able to reimburse employees for their individual insurance policy premiums on a pre-tax basis. ~~Any reimbursements for individual insurance premiums will be taxable income effective 01/01/2014~~ (*A government notice in Nov 2014 has changed this by stating that individual coverage may not be reimbursed by the employer pre or post tax.*). HRAs that are integrated with other group health coverage will continue to be permissible.

“A Health Reimbursement Arrangement (HRA) is an employer-sponsored benefit program approved by the Internal Revenue Service (IRS) that reimburses employees for qualified medical care expenses not already paid for by the employer’s health plan. The HRA is a great way to help stretch your healthcare budget because it allows you to pay for healthcare expenses with money that is not taxed.

“Note: A Health Reimbursement Arrangement (HRA) is NOT a Section 125 plan, Cafeteria Plan, or Flexible Spending Plan. Differences include the fact that these plans are more complicated to administer, they are employee funded through salary reduction, and they are characterized as a use-it-or-lose-it type of plan.

“A church can use a Health Reimbursement Arrangement (HRA) as a way to lower medical insurance costs but still cover the employees qualified medical expenses tax free. In a year when the cumulative medical costs for employees is relatively low, the savings on insurance costs can be quite significant. On the other hand, in a year of high medical costs, medical reimbursements could be higher than insurance premiums saved. If a church reduces medical insurance coverage in order to lower premiums without adding a health reimbursement arrangement, that church is simply shifting medical expenses from employer to employee. In addition, the employee could then be forced to pay their higher medical expense using after-tax funds. The type of plan helps avoid that added cost to the employee.

“The employer (church) must establish a formal written plan. (See plan document link.) Note that this benefit is for employees only and is employer funded. It cannot be funded by any means of salary reduction.

“The employer determines the amount available in each employee’s personal account for the coverage period (generally a year). The employer can establish a dollar limit per employee. The employer also determines how much of that amount can be rolled over to future coverage periods.

“As eligible expenses are submitted, the employee’s personal HRA account is reduced and paid to them on a nontaxable basis.

- Expenses must be submitted using adequate claim substantiation.
- The expenses claimed cannot be reimbursed by any other plan.
- Only qualified expenses may be reimbursed (IRC Section 213)
- Claims must be only for those expenses incurred during the coverage period.
- Reimbursement for payments of medical insurance premiums may be included.

“Unused funds at the end of the year are carried over to the next year. At the beginning of the next coverage period, additional funds are added. This leaves funds from a low medical cost period available for use in a higher cost period. With no “use-it-or-lose-it” requirements, employees have an incentive to be responsible managers of the balances.

“The HRA plan must not discriminate in favor of highly compensated employees with respect to eligibility to participate or benefits provided under the plan.”

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**For more information on Health Reimbursement Plans:**

<http://www.guidestoneinsurance.org/FormsandFAQ/FAQs/HSAsHRAsFSAs>