Q. What are health reimbursement arrangements and how do they work?

A. HRAs are tax-advantaged employer-sponsored accounts used to reimburse employees for qualified medical expenses. HRAs are usually offered in conjunction with high-deductible health plans.

HRAs are tax-advantaged employer-sponsored accounts used to reimburse employees for qualified medical and dental expenses, such as copayments, deductibles, and prescription drug costs. HRAs are usually offered in conjunction with high-deductible health plans.

Unlike health savings accounts and health flexible spending accounts, only an employer can contribute to the accounts. Employer contributions to the accounts and reimbursements for qualified medical expenses are exempt from federal income and payroll taxes. Any unused funds at the end of the plan year can carry over indefinitely, although employers may limit the aggregate carryover amount. Unlike health savings accounts, funds may never be used for nonqualified expenses and employees may lose their unused balances when they separate from their employers.

Employers need not fund HRAs until employees draw on the funds. Unlike flexible spending accounts, the entirety of the funds does not need to be available from the beginning of the period. HRAs are usually offered in conjunction with high-deductible health plans, although employers can “integrate” them with other qualified group health plans. With the implementation of the Affordable Care Act in 2010, most HRAs are no longer available as stand-alone accounts.

Further Reading

