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Topic: Health Reimbursement Arrangements (HRA)

Health Reimbursement Arrangements are one of those great little secrets in the insurance industry. They have been around longer than Health Savings Accounts (HSA), but they have not been in the spotlight like the HSA. They are often left out of benefit discussions, and if you haven't been introduced to the HRA, you truly are missing something. I have used them with many health plans, and they have always resulted in lower health insurance premiums.

What is a Health Reimbursement Arrangement? An HRA is an account established by an employer to reimburse employees for certain out-of-pocket expenses such as deductible expenses. They work with any health insurance plan making them very flexible. What makes an HRA unique is the fact that it is a "promise-to-pay" account. That means that though you are liable for all potential claims within the parameters you have agreed to reimburse, you are only responsible to reimburse those expenses that were actually incurred.

How will an HRA save me money on health insurance premiums? The savings generated by changing to a less expensive health plan are often greater than the funding requirement of the HRA. For example, by increasing your plan deductible you will reduce your premiums. An HRA can then be established to promise to reimburse employees for their increased out-of-pocket expense. Actual HRA claim expenses are on average 20% to 30% of the total claim liability. Even considering the fixed cost of HRA administration, the net savings can be significant.

Why would I want an HRA? While the obvious answer is to save money on health insurance premiums, there are other benefits to establishing an HRA. One is transparency. If you fully insure your medical and are a small to mid-size company, you are likely not getting claims experience for your group. An HRA will shed some light on the health care utilization of your group, information that can be valuable when making benefit decisions. An HRA also engages employees so they will be more aware of the cost of health care services, which can lead to better utilization habits and ultimately lower insurance premiums.

How do I set up an HRA? You will first want to hire a Third Party Administrator (TPA) to draft the necessary documents and adjudicate claims. Your broker should be able to help and likely has relationships with TPAs already. There is a great deal of flexibility when you establish your plan regarding what expenses to cover, who to cover, whether you want to allow funds to roll from year to year, etc. If your broker has experience with these accounts, a few minutes of discussion should be enough to help you navigate the choices.