Health Reimbursement Arrangements

Health Reimbursement Arrangement (HRA): an employer funded arrangement that reimburses employees for medical expenses incurred by the employee, their spouse, and/or their dependents.

Who can contribute to an individual's HRA?

Employers only, no employee contributions allowed.

What are the basic legal requirements of HRAs?

- No federal income tax or employment tax on contributions.
- Tax-free distributions for qualified medical expenses substantiated using Section 213(d).
- No cash out of unused amounts, but spend-down may be permitted.
- HRA plan document should specify eligibility, permitted expenses, other HRA design choices.
- Integration with major medical coverage may be required, depending on the type of HRA.
- HRAs are group health plans, subject to ERISA, COBRA, HIPAA and ACA market reforms.
- Self-employed individuals, partners and more than 2% shareholders may not participate in an HRA.
- HRAs are subject to PCOR fee assessment, unless integrated with other self-funded major medical plan.

Types of Health Reimbursement Arrangements

Group Health Plan HRA

- Most common type of HRA.
- HRA integrates with employer's traditional major medical GHP.
- Funds usually used to offset deductible and coinsurance amounts.

Individual Coverage HRA (ICHRA)

- Employer HRA coverage is integrated with coverage purchased on the individual market.
- Participants must be enrolled in permitted individual market insurance.
- No traditional GHP coverage may be offered to an individual who is offered an ICHRA.
- ICHRAs must be offered on the same terms to all plan participants.
- There must be an opportunity for individuals to opt out and waive future reimbursements.
- Reasonable procedures must be in place to substantiate individual coverage.
- Employers must comply with notification requirements.

Qualified Small Employer HRA (QSEHRA)

- Employers with less than 50 full-time employees in the preceding calendar year may offer QSEHRAs.
- QSEHRA may be used for health expenses for employee and dependents, including the purchase of individual health insurance coverage.
- QSEHRA may have a max benefit per year of $6,450 for self-only coverage and $13,100 for family coverage for 2026.
- Value of coverage must be included on Form W-2.
- Notice must be provided 90 days before start of the plan year.

HSA-Compatible HRA

- HRA will make an individual HSA-ineligible unless it is specifically designed to preserve HSA eligibility.
- HRA coverage will make individuals HSA-ineligible for the entire HRA coverage period, even if the HRA balance is exhausted.
- Specially designed HRAs that will preserve HSA eligibility:
  - Limited-purpose HRA: only reimburses permitted expenses, vision dental and preventive care without regard to the minimum HDHP deductible.
  - Post-deductible HRA: only reimburses expenses after the minimum HDHP deductible has been met.
  - Suspended HRA: individual agrees to forgo HRA reimbursement during the coverage period. Individual remains HSA-eligible during the HRA suspension period, even as the employer makes HRA contributions.
  - Retirement HRA: Similar to suspended HRA. Employer makes contributions, but employee doesn't have access to the HRA until after retirement.

Excepted Benefit HRA (EBHRA)

- Limited dollar HRA that meets criteria for "excepted benefits" and is thus exempt from ACA mandates.
- Annual contribution must not exceed $2,200 in 2026 (indexed annually).
- Must be offered with group health plan, although employee is not required to enroll in the GHP.
- EBHRA may not reimburse premiums for individual insurance coverage, group health coverage (other than COBRA premiums) or Medicare premiums.
- Generally an EBHRA will disqualify an individual from HSA eligibility.