

360 Degrees of Financial Literacy

What are health reimbursement arrangements?

Answer:

Health reimbursement arrangements (HRAs) are employer-sponsored health-spending accounts that allow employees to accumulate funds for health expenses.

Here's how an HRA typically works. An employer sets up an HRA on behalf of a covered employee and allocates a certain amount of money to it each year. Funds that accumulate in the HRA tax free are used to reimburse the employee for qualified medical expenses such as health insurance premiums, routine medical bills, deductibles, and prescription drugs.

Companies offering HRAs often pair them with high-deductible health plans. Once the funds in the HRA are exhausted, the employee's health expenses are covered by the high-deductible health plan, after any co-payment, coinsurance, or deductible requirements are met. But if funds remain in the HRA at the end of the year, they can be rolled over into the following year, allowing the employee to "save" for future health expenses.

Offering an HRA in conjunction with a high-deductible health plan is potentially much less expensive for employers. Employees may benefit, too, from having more control over their health care. HRAs are becoming increasingly popular as employers look for ways to slash health-care costs without sacrificing flexible health benefits.

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