

Health Reimbursement Arrangement (HRA)

Questions and Answers for Employers

What is a Health Reimbursement Arrangement?

A Health Reimbursement Arrangement (HRA) is an Employer funded “accident or health plan” (Plan), that (i) provides individual accounts for reimbursing employees, retirees and their dependents for eligible medical expenses and (ii) permits any unused portion of the account at the end of the year to be carried forward to the next year. Unlike flexible spending accounts, there is no annual “use it or lose it” requirement.

What is required to have a qualified HRA?

A HRA must be funded solely through Employer contributions. Employees cannot contribute on either a pre-tax or after-tax basis.

Amounts must be used for “qualified medical expenses”, (as defined in IRC Section 213(d)), of an employee, or the employee’s spouse or eligible dependents. HRA assets may also be used to reimburse health insurance premiums (including Medicare) or premiums for long term care insurance (subject to the indexed IRS limits).

Each medical expense submitted for reimbursement must be “adjudicated” as a “qualified” (substantiated with documented proof) medical expense by MidAmerica prior to reimbursement from the HRA account.

Amounts can only be used to cover eligible medical expenses. Therefore, in the event of a Participant’s death, a HRA can only pay associated medical care expenses.

Reimbursements can be made for expenses incurred as of the effective date of the HRA or the date the Participant first became enrolled in the HRA (not before). Reimbursements are not permitted for expenses for which a deduction was allowed on any prior year Form 1040.

HRAs are subject to the nondiscrimination requirements under IRC Section 105(h), which generally prohibit discrimination in favor of highly compensated employees with respect to eligibility to participate and benefits provided.

What are the tax implications of a HRA?

Are contributions to a HRA taxable to Employees?

Employees are not taxed on Employer contributions. Internal Revenue Code (“IRC”) Section 106 provides tax-exclusion for contributions an Employer makes to a HRA. Therefore, Employees are not taxed on eligible claims paid from a HRA.

Are withdrawals from a HRA taxed?

No. Assets used to pay for eligible medical expenses are not taxed. IRC Section 105 provides tax-exclusion for amounts received as reimbursement of health expenses.

What are the tax consequences should a HRA be disqualified?

If a HRA fails to meet the requirements provided in the HRA Guidance, all distributions made, including those for eligible medical expenses will be taxable to the Participants.

How does a Participant file their tax return when they have taken a distribution from the HRA?

Expense reimbursements under HRAs for eligible medical expenses are not reportable to the IRS. No other distributions from the HRA are allowed and therefore, there is no IRS reportable event.

Who is eligible for a HRA?

A HRA may have a minimum age and/or service requirement. Eligibility requirements are established during plan setup.

Unlike Health Savings Accounts (HSA), there is no requirement that a Participant in a HRA also participate in a High Deductible Health Plan.

A HRA may provide reimbursements for active Employees and/or former Participants after termination of employment or retirement.

Are there any fees associated with participation in the HRA?

Claim processing fees may apply. For information specific to your Employer's HRA plan, please refer to the *Plan Highlights*.

What are the rules for making contributions to a HRA?

How are contributions determined in a HRA?

There are no Internal Revenue Code (IRC) limits to the amount that the Employer may contribute. The Plan, however, may place limits on contributions. The amount and frequency of Employer contributions are determined during plan setup.

Can Participants make contributions to my HRA?

No. The IRS has recently provided HRA guidance that prohibits contributions other than Employer contributions to a HRA.

How do Participants get access to the assets in my HRA account?

Assets in a HRA may only be used to reimburse an eligible plan Participant for eligible medical expenses.

Who is a qualified plan Participant?

A qualified Participant is an Employee, a previous employee, the spouse or dependent of an employee or previous employee who has a vested benefit under the Plan. Please refer to your HRA plan document for a detailed explanation of a qualified Participant.

Can a HRA have a vesting schedule?

Yes. It is possible for an Employer to implement a vesting schedule. Assets in the HRA account are only available to pay claims once the Participant has satisfied the vesting requirements and reimbursement eligibility of the Plan. For further information regarding the Plan's vesting schedule, please refer to the *Plan Highlights*.

How can the Employer access plan information?

Plan Sponsors may access account information, print statements or download withdrawal paperwork online at www.midamerica.biz or you may contact MidAmerica directly at 1-800-430-7999.

How often will plan Participants receive statements of account?

Hardcopy statements of account are mailed on a quarterly basis.

What is an eligible medical expense?

Eligible medical expenses are defined under Section 213(d) of the Internal Revenue Code. A sample listing of eligible medical expenses is included in the Participant's initial welcome kit. IRS Publication 502 can also be used as a guide. However, there may be instances where the information in IRS Publication 502 does not apply to Health Reimbursement Arrangements.

How does a plan Participant submit a claim for reimbursement?

The Participant must complete and submit to MidAmerica a HRA claim form along with the appropriate documentation to MidAmerica for processing. The claim form can either be mailed to MidAmerica at ATTN: HRA Department, 402 South Kentucky Ave., Suite 500, Lakeland, FL 33801, or faxed to 863-688-4200.

How does a plan Participant obtain a claim form?

Participants may call MidAmerica's customer service line at 1-800-430-7999 to request a form to be mailed to them. We also include a claim form in the initial Participant welcome kit upon receipt of the first contribution into the program. Lastly, Participants can obtain HRA claim forms on our website at www.midamerica.biz by clicking on Participants, Health Reimbursement Arrangement and Download Forms.

What documentation is required to "substantiate" a claim?

MidAmerica's HRA claim form provides you with detailed instructions as to what is acceptable documentation. IRS rules require any claim to be substantiated and supported with backup documentation in order to be reimbursed. The backup documentation must include the date of service, description of services rendered, for whom the services were rendered, and the dollar amount of the services rendered. Any third-party documentation including this information will suffice. Here are some common examples of acceptable documentation:

- Explanation of Benefits (EOB) statement from the insurance carrier. (The summary of services rendered sent out by the insurance company after services are provided.);
- Co-pay receipts are covered if the Participant is under a managed care or prescription drug program;
- Itemized bill that provides the name of provider, patient, cost, date, and description of service.

How often are claims processed?

We process claims twice a month (15th & last business day). Claims received between the 1st – 15th of the month, are processed by the last business day of that same month. Claims received between the 16th and last business day of the month, are processed by the 15th of the following month (pending approval).

What if a plan Participant has a monthly recurring expense, such as monthly health or dental insurance premiums?

There are specific IRS rules for recurring claims, which must be followed in order to take advantage of this HRA benefit. MidAmerica must receive documentation each and every month to process the claim; however, the documentation required is relaxed after the initial set-up of the recurring claim. Claim forms are included in the Participant welcome kit as well as on our website at www.midamerica.biz. The claim form also provides additional instructions as to what documentation is acceptable.

What are examples of initial proof to set up a recurring distribution?

When requesting a recurring claim, you must submit documentation that contains the following information:

- Completed & signed HRA "recurring" claim form
- Date of Service (or term of the agreement)
- Services Rendered
- Recipient of the Services Rendered
- Cost of the Service

What are examples of documentation needed for subsequent months?

Once the initial claim has been setup, there is a decreased burden of proof for the subsequent payments. Therefore, the Participant will only need to send either a proof of payment (both sides of cancelled check showing that it was cashed, bank statement, etc.) or proof that the claims were incurred (letter from insurance company showing the policy still in force, monthly statement, etc.).

Can plan Participants get advanced reimbursement for medical expenses they have not yet incurred?

No. The IRS prohibits paying claims prior to the claim being incurred. Therefore, the Participant would need to wait until a particular expense has been incurred prior to submitting a claim for reimbursement. Per IRS regulations, the term "incurred" refers to the date the Participant or eligible dependent is provided with the care that gives rise to the medical, dental, vision, prescription, or other eligible expense. This date could be different than the date the Participant was billed or paid for the expense. Once the expense is incurred, the Participant would then use any of the above referenced examples as documentation to support the claim.



MidAmerica's HRA distribution department will attempt to contact Participants by phone at least two times in an effort to obtain appropriate documentation or get clarification on any questions regarding the claim. If we are unable to reach the Participant directly, we will process the portion of the claim that is eligible (if any) and send a letter to the Participant notifying them that part of their claim was not eligible.

Can plan Participants use their HRA to pay for medical expenses they incurred prior to becoming a member of the plan?

No. A HRA may not reimburse a medical care expense that is attributable to a deduction allowed under §213(d) for any prior taxable year. Additionally, a HRA may neither reimburse a medical care expense that is incurred before the date the HRA is in existence nor reimburse a medical care expense that is incurred before the date a Participant first becomes enrolled under the HRA.

What happens to the assets in a plan Participant's account at death?

Death benefits cannot be provided under a HRA. Amounts in the account can only be used for eligible medical expenses. This is because IRC Section 105 which provides the basis upon which the HRA Guidance was made, provides an exclusion from tax only if amounts are used for eligible medical expenses.

Amounts remaining in the account at death can be used to reimburse eligible medical expenses for the spouse or dependents of the deceased employee/retiree. The terms of the Plan would dictate how this continued coverage will be provided.

If no spouse or dependents survive the employee/retiree, amounts remaining in the account must be forfeited. Forfeitures can be allocated to the remaining Participants, so long as allocations are made on a nondiscriminatory basis, used for plan expenses or used to offset future Employer contributions.

If an Employee terminates employment, can they move their account to their new Employer?

No. However, should the Participant be vested in the Plan, the Participant would be able to submit claims against the assets in the account. The account would continue to reside in the trust the Employer established to hold the assets.

