Common **HRA** Misconceptions

Addressing some common concerns about Health Reimbursement Arrangements (HRAs)

Despite the increasing adoption of the HRA and the recognition of both its cost-saving abilities and administrative flexibility, you may be hesitant to accept it as a new benefit due to some common misconceptions. We're here to address some frequently-asked questions that may help you better understand how this powerful benefit can work for you.

Employee concern: I don't need my unused leave for medical expenses—I want to use that money for any purpose after I retire.

The average 65-year-old couple retiring in 2019 spent about $285,000 in health care and medical expenses throughout retirement[1], which means that without an HRA, you will likely use a deferred retirement benefit or cash payout to cover those expenses. An HRA allows that money to be invested for potential tax-free growth and used tax-free when you incur the inevitable medical costs. Plus, we can set up a unique plan design so that a portion of your unused leave is placed into an HRA while the remaining funds are placed into a tax-deferred retirement plan, like a 401(a) or 403(b) plan, to be used for any purpose you choose. Essentially, you'll maximize the value of your unused leave to help offset the rising costs of health care in retirement.

Employee concern: It seems like I'm losing money since I'm not receiving a cash benefit.

You're actually receiving more money since the HRA is tax-free! This means you receive dollar for dollar the benefit amount you are promised. Unlike other retirement plans, the money reimbursed through the HRA is not subject to FICA, Federal, or State income taxes. With an HRA, deposits, accumulation, and reimbursements are all tax-free. In fact, you can easily calculate how much of your total benefit you'd receive based on the benefit vehicle. Below is an illustration based on a $25,000 benefit amount.

	HRA	Tax-Deferred Plan	Cash Payout
Benefit Amount	$25,000.00	$25,000.00	$25,000.00
7.65% FICA Taxes Removed	N/A	N/A	-$1,912.50
Federal Tax Removed*	N/A	-$5,000.00	-$5,000.00
Remaining Benefit Amount	**$25,000.00**	**$20,000.00**	**$18,087.50**

**Based on 20% Federal Tax assumption. Consult your tax advisor for the actual tax rate that would apply to you.*

Employee concern: Is it true that HRAs do not allow beneficiaries?

A participant's surviving spouse, tax dependents, and qualifying children can still access HRA funds to pay for their own qualifying medical expenses after a participant's death. Most participants fully spend their HRA balances over the course of their lifetimes.

Other Common Misconceptions: What an HRA is and What It's Not

What an HRA is	What it's not
Health Reimbursement Arrangement	Health Savings Account (common mistake!)
An investment. All HRA funds are invested for potential growth.	**Unfunded.** While an HRA can be designed to be unfunded, it can also be invested for potential growth, which means funds can be maximized through potential earnings.
100% Triple Tax-Free. This means that all deposits, accumulation, and reimbursements are not subject to FICA, Federal or State income taxes.	**Taxed.** HRAs are never taxed, even upon reimbursement.
Flexible. HRAs can be designed as a retirement incentive, retention tool, and an investment vehicle. HRAs can also easily work with other plans.	**Complicated.** Unlike the HSA, the HRA can easily integrate with Flexible Spending Accounts (FSAs) and any group health plan.
Funded by the employer. Additionally, HRAs can be funded using unique forms of compensation like unused sick leave or vacation pay.	**Funded by the employee.** Unlike an HSA or FSA, the HRA is 100% funded by the employer.
Not limited when it comes to contributions. Unlike HSAs or FSAs, HRAs have no contribution limits.	Many benefits, including the FSA and HSA, must comply with annual maximum contribution amounts. With the HRA, there are no maximum or minimum thresholds to take into account.

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[1] https://www.investopedia.com/retirement/how-plan-medical-expenses-retirement/

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