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NIS Guide

Why Integrated HRAs May Work Better than HSAs

for School, City, and County Employers

HRAs May Be a Better Option Than HSAs

Schools, cities, and counties around the country are moving toward higher deductibles on their health insurance plans to help cut health care spending. Many of these organizations also consider offering a Health Savings Account (HSA) in conjunction with the higher deductibles.

There may be a better solution. Many governmental organizations have found that a Health Reimbursement Arrangement (HRA) is a better fit than an HSA for their employees, regardless of the plan design or insurance carrier they choose. This guide will help you understand the advantages of an HRA over an HSA.

In a Nutshell: The Differences

An HRA is very similar to an HSA. Both plans allow employers to deposit funds on behalf of the participant. Both plans help increase a participant's personal responsibility for the financial side of health care decisions. Both plans are designed so that funds carry over year-to-year, including post-employment and retirement. And both plans earn interest tax-free and are used tax-free for qualifying medical expenses.

However, there are many differences between the two plans. Once you understand these differences, it will become clear that the HRA far outweighs the HSA in terms of benefits to administrators, boards, and participants.

Common Myths about HRAs:

MYTH

HRA Funds Do Not Carry Over from Year to Year

FACT

When you use a funded HRA, the unused funds can carry over year-to-year, even into post-employment. The carry-over amount can be customized to meet your particular circumstances. For example, your plan could stipulate that all the unused funds or just a portion of the unused funds will carry over. Customizing your plan in this way is as simple as checking a box on the implementation form.

MYTH

HRAs Cannot Earn Interest

FACT

Funded HRAs earn interest. If an HRA is funded through a trust or VEBA, the HRA funds can be held in an interest-bearing account, with interest allocated to participants' HRA accounts based on their balances.

HRA vs. HSA

HRA (Health Reimbursement Arrangement)	HSA (Health Savings Account)
Employer can contribute (Participant can still contribute to a full medical flexible spending account (FSA)	Participant and Employer can contribute (Participant can only use FSA for dental and vision expenses)
Early Retirees can use the funds for health insurance premiums upon retirement*	Early Retirees cannot use the funds for health insurance premiums until they turn 65
All participants and retirees can participate	Some participants are not eligible to participate
Employer has the option to share in a portion of the unused funds	Employer cannot share in any portion of the unused funds
Can be used with any type of health insurance plan design	Can only be used with an IRS-qualified High-Deductible Health Plan (HDHP)

**If the HRA is integrated into the employer-sponsored health insurance plan, funds can be rolled into a Retiree-Only plan and used for health insurance premiums during retirement.*

What about Participant Contributions to HSAS?

Although HSAs allow for participant contributions and the HRA does not, studies have shown that participant contributions are generally very low. Additionally, HSA participants must eliminate contributions to a FSA plan. The HRA allows the participant to continue to make contributions to their FSA plan.

Five Reasons an HRA May Work Better than an HSA for Schools, Cities, and Counties

1

HRAs Can Be Used For Health Insurance Premiums

While both plans cover eligible health care expenses like deductibles, co-pays, prescription drugs, eyeglasses, dental expenses, and other medical expenses, the HRA can also be used for **premiums upon retirement.*** One of the disadvantages of HSAs is that funds cannot be used for health insurance premiums unless the participant has reached age 65. Given that many schools, cities, and counties allow employees to retire prior to 65, this is a major drawback. In fact, eligible HRA premium payments include Retiree Health, Dental, Vision, and Long-Term Care Insurance, as well as Medicare B, C, D, and Medicare Supplements. Accumulated HRA balances may make it easier for participants to afford to retire since health insurance is one of the barriers to early retirement.

2

With HRAs, All Participants Are Eligible To Participate

HRAs are open to everyone, both participants and retirees. HSAs are more limited. For example, a participant is generally prohibited from participating if they are also covered by a spouse's non-qualifying HDHP or non-modified Flexible Spending Plan.

This eligibility problem can also affect the actualization of the projected savings. Why? Because those participants (usually 15% or so) who are also covered by a spouse's non-HDHP or non-modified FSA must drop their spouse's coverage in order to participate in an HSA. This, in turn, creates higher claims for those who were using two plans in the past; thereby, increasing claims on your new plan. More claims equal higher rates. Anticipated savings may be reduced or lost.

3

HRAs Have No Restrictive Plan Design Requirements

An HSA, according to IRS rules, must be used in conjunction with an HSA-qualified HDHP.

With an HRA, you are free to mold and shape a plan that works for your group. Any plan, no matter how high or low the deductible, can be used with an HRA. Additionally, there are no contribution limits.

4

HRAs Have Carry-Over Flexibility That Allows Employers To Save More

With the HRA, you have options. For example, if a balance remains after the plan year, you can design your plan so that the employer shares in a portion of the unused funds.

With an HSA, once the employer provides the contribution, there is no opportunity to share in the unused funds.

5

Increased Responsibility For Health Care Choices

Americans are savvy consumers of almost everything except health care. This lack of consumer awareness creates runaway claims that drive premium increases. With an HRA, participants feel an increased sense of personal responsibility for their health care choices that may drive down claims, bending the cost curve.

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About National Insurance Services:

Since 1969, National Insurance Services (NIS) has worked with public sector organizations such as schools, cities, counties, municipalities, libraries, and community mental health organizations providing employee benefit consulting services, as well as brokerage services for medical, dental, life, disability, and vision insurance benefits. NIS also specializes in early retiree benefit restructuring services, tax-free options for retiree payouts, as well as, on-site and near-site medical clinics.

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