HSA GPS Fact Sheet Series

HSAs and Interactions with HRAs

Individuals are required to meet certain eligibility criteria to open and contribute to a Health Savings Account (HSA). Enrollment in certain employer-sponsored benefits, whether offered by your or your spouse's employer, may impact your HSA eligibility. In this paper, we look at the intersection of HSAs and Health Reimbursement Arrangements (HRAs) to examine scenarios that may impact your ability to open and contribute to an HSA.

An HRA is an employer-designed and funded account typically paired with a medical plan with a high deductible to reimburse a portion of employees' out-of-pocket expenses (deductibles, coinsurance and copays).

1. My employer offers an HRA that pays the first portion of my group medical plan's deductible expenses. How does the HRA impact my HSA eligibility?

The Internal Revenue Service (IRS) defines an HRA as a medical plan. Under HSA rules, if you're covered by more than one medical plan, each plan must be HSA-qualified coverage. In this case, you're covered by a medical plan (the HRA) that begins to pay benefits before you satisfy the statutory minimum annual deductible for an HSA-qualified plan ($1,300 for self-only coverage and $2,600 for family coverage in 2017, projected to increase to $1,350 and $2,700 in 2018). Therefore, when you're covered by this HRA (a design called a "first-dollar" HRA), you can't open or contribute to an HSA, even if your major medical plan is an HSA-qualified plan.

2. Can my employer design a program that helps me offset my deductible expenses and allows me to become or remain HSA-eligible?

Yes. If the HRA meets the criteria for an HSA-qualified medical plan, you can be HSA-eligible and access employer reimbursement funds tax-free through an HRA. The HRA must have a deductible of at least $1,300 (projected to rise to $1,350 in 2018) for self-only coverage or $2,600 (projected to rise to $2,700 in 2018) for family coverage. This plan is labeled a *Post-Deductible HRA*.

For example, your employer may offer a medical plan with a $5,000 deductible for a self-only contract. If the HRA reimburses all deductible expenses above $1,500, you don't lose HSA eligibility, since your HRA is now an HSA-qualified medical plan as well. You can use funds from your HSA to reimburse the first $1,500 of deductible expenses tax-free.

3. Why would an employer offer the program described above? Why not just offer a medical plan with a $1,500 deductible and no HRA?

Your employer may determine that total costs (medical plan premiums plus HRA administration and reimbursements) are less with a higher deductible (lower premium) medical plan and HRA combination than with a lower deductible (higher premium) medical plan alone.

4. Are there other HRA designs that my employer can offer without impacting my HSA eligibility?

Yes. Your employer can offer an HRA that reimburses only dental and vision expenses (or only dental <u>or</u> vision). This plan is called a *Limited-Purpose HRA*. Because reimbursement is limited to coverage that's permitted under HSA eligibility rules, you remain HSA-eligible. While these plans aren't common, some employers use HRAs as the company dental plan rather than offering traditional dental insurance. Employees have a fixed amount of tax-free employer money in an HRA that they can spend on dental services without being restricted to a specific dental insurer's network or rules.

5. I want to move from my current benefits program, a deductible plan with an HRA, to my employer's HSA-qualified plan. I have a hefty HRA balance that rolls over, though, and I don't want to lose access to those funds. Can my employer or I do anything to preserve those balances while allowing me to become HSA-eligible?

Yes. You can't roll over unused HRA balances into your HSA under current regulations. Your employer can, however, offer one of two programs that allow you to retain HRA balances but restrict when you can access those funds:

- *<u>Retirement HRA</u>:* You can't access balances until you leave the company and meet your employer's criteria. For example, you may have to be at least 60 years old, have been with the company at least 10 years and have at least a $10,000 balance in the account.

- *<u>Suspended HRA</u>:* You can't access balances during the plan year. If you switch back to your former coverage, the deductible plan with an HRA, at some point in the future, your balances roll over into your new HRA.

6. My spouse has an HRA through her employer. How does that affect my HSA eligibility?

It depends on whether you can reimburse your expenses through her HRA. HRAs typically are integrated with medical plans. If she doesn't cover you on her medical plan and the HRA reimburses only out-of-pocket expenses incurred under the medical plan, you're not impacted by her HRA. On the other hand, if she covers you on her HSA-qualified medical plan with a first-dollar HRA and you're enrolled in an HSA-qualified medical plan through your employer, you aren't HSA-eligible because you can access reimbursement through her HRA.

This information is accurate as of April 1, 2017. Please note that this discussion is for informational purposes only and is based on current regulations. It doesn't represent, and shouldn't be construed as a substitute for professional advice. Please consult your personal legal, financial or tax counsel to discuss your personal situation and refer to IRS Publication 969.

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