



HSAs and Interactions with HRAs

You're required to meet certain eligibility requirements 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 affect your HSA eligibility. In this paper, we look at the intersection of HSAs and Health Reimbursement Arrangements (HRAs) to examine scenarios that may affect your ability to open and contribute to an HSA.

An HRA is an employer-designed and -funded account typically integrated with a high-deductible medical plan. The HRA reimburses a portion of employees' out-of-pocket expenses (any combination of deductibles, coinsurance, and copays, as determined by the employer).

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

Yes. HRAs fall under many of the federal rules governing medical plans. 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 (\$1,350 for self-only coverage and \$2,700 for family coverage in 2019). 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 primary medical coverage is an HSA-qualified plan.

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

Yes. If the HRA meets the requirements for an HSA-qualified medical plan and you satisfy all other eligibility requirements, you can open and contribute to an HSA and receive employer reimbursement funds tax-free through an HRA. The HRA must have a deductible of at least \$1,350 for self-only coverage or \$2,700 for family coverage in 2019. This plan is called a *Post-Deductible HRA*.

For example, your employer may offer a medical plan with a \$5,000 deductible for self-only coverage. 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 HSA funds to reimburse the first \$1,500 of deductible expenses tax-free, before the HRA begins to reimburse your expenses.

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 costs) 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 affecting my HSA eligibility?

Yes. Your employer can offer an HRA that reimburses only dental and vision expenses (or only dental or 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. This HRA design isn't common.

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 and allow me to become HSA-eligible?

Yes. You can't roll over unused HRA balances into your HSA under current law. Your employer can, however, offer a program that allows you to retain HRA balances but restrict when you can access those funds:

- Retirement HRA: You can't access balances until you leave the company and meet criteria set by your employer. For example, you may have to be at least 60 years old, have been with the company at least 10 years before leaving, and have at least a \$6,000 balance in the account.
- Suspended HRA: 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 her employer's medical plan, your HSA eligibility isn't affected by her HRA. On the other hand, if she covers you on her 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 your ability to access reimbursement through her HRA constitutes disqualifying coverage.

This information is accurate as of Nov. 5, 2018. 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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