Cascade Policy Institute

Cascade Commentary

November 2002 No. 2002-29

HRAs benefit employees and employers

By Kurt T. Weber

Summary

Health Reimbursement Arrangements can help employers provide employees with more health plan options and control costs. Employees benefit by getting more choice and the opportunity to make their own health care decisions. Recent guidance from the IRS and Treasury Department will likely encourage wider adoption of HRAs.

Word count: 663

On a warm summer day this year, the Treasury Department and IRS upheld a health care option the private sector had been offering for a few years. Employees and employers looking for health care solutions, take note of June 26, 2002.

Treasury Secretary Paul O'Neill said in a media release, "With this new guidance, we clear the way for employers to adopt health plans with patient-directed features so that employees have more choice and greater control over their health care coverage." O'Neill was talking about "Health Reimbursement Arrangements."

Under Health Reimbursement Arrangements (HRAs), an employer sets aside a specific amount of money each year to reimburse an employee for co-payments; deductibles; services not covered by health insurance; vision and dental expenses; and, in some states, group insurance premium payments or individual insurance policies (Oregon prohibits the latter in the small employer health insurance market). The employer also has the option of offering a variety of medical plans, and contributing a fixed dollar amount to help pay for them.

If an employee selects a health plan that costs less than the employer's contribution, the difference is added to what the employer has agreed to set aside. If an employee chooses a more expensive plan, she could pay the extra amount with a pre-tax payroll deduction, a Flexible Spending Account or FSA. (For all its good points, the FSA has a major flaw: employees generally lose access to that money at year's end if it is not spent.)

In brief, the employee decides how, and on what, to spend the Health Reimbursement Arrangement money, rather than being limited to one or two insurance plans, and the approved doctors, procedures, and guidelines. Employers benefit because they can offer multiple plans, with fixed expenses.

Most recently, Liberty Health Group in Washington formed to manage HRAs, joining a handful of companies that were already doing so. Strangely, though nothing prohibited the carryover of unspent funds, uncertainty remained in the business world as to whether that practice was legally allowed. That uncertainty helped stifle more widespread use of HRAs.

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On June 26 that uncertainty was erased. The Treasury Department's media release stated that under HRAs the "carryover of unused amounts to later years" is indeed permissible and such funds can "be used to reimburse employees for the purchase of health insurance." Further, "HRAs may allow former employees, including retirees, continued access to unused reimbursements."

Galen Institute president Grace-Marie Turner notes, "The key part of the IRS ruling is to allow employees to rollover from one year to the next any amount in the account that they have saved. And they can continue to access the money even after they leave the company or retire. It's theirs! Good-bye use-it-or-lose-it."

Turner draws attention to the bigger picture, pointing out the HRA "dramatically changes the incentives in health care. Finally, consumers will see the money that they are spending on health care as real money…And the money is theirs to keep if they spend wisely."

Spending health care dollars wisely includes paying for routine health services at the time they are received. Physicians often offer lower fees to patients who do this. Health providers can reduce their fees because payment-at-time of service helps lower their administrative costs; those savings can be passed on to patients. Thus, individuals who opt to purchase low-cost, high deductible catastrophic health insurance policies and pay for routine care at the time of delivery can stretch their health care dollars further.

"To improve health care quality and control rising costs requires that individuals have a greater stake in paying for their coverage plus the opportunity to make their own health care decisions," states Rick Rebel, principal of Albany Agency of Insurance and former president of the Oregon Association of Health Underwriters. Rebel affirms, "The trend toward consumer-driven health care solutions is growing in Oregon, and Health Reimbursement Arrangements are another arrow in that quiver."

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