

Health Reimbursement Arrangements (HRAs)

A health reimbursement arrangement (HRA) must be funded solely by an employer. The contribution cannot be paid through a voluntary salary reduction agreement on the part of an employee. Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount for a coverage period. An HRA may be offered with other health plans, including FSAs.

What are the benefits of an HRA? You may enjoy several benefits from having an HRA.

- **Contributions made by your employer can be excluded from your gross income.**
- **Reimbursements may be tax free if you pay qualified medical expenses. See *Qualified medical expenses*, later.**
- Any unused amounts in the HRA can be carried forward for reimbursements in later years.

Qualifying for an HRA

HRAs are employer-established benefit plans. These may be offered in conjunction with other employer-provided health benefits. Employers have complete flexibility to offer various combinations of benefits in designing their plan. You do not have to be covered under any other health care plan to participate.

Self-employed persons are not eligible for an HRA.

Contributions to an HRA

HRAs are funded solely through employer contributions and may not be funded through employee salary deferrals under a cafeteria plan. These contributions are not included in the employee's income. You do not pay federal income taxes or employment taxes on amounts your employer contributes to the HRA.

Amount of Contribution

There is no limit on the amount of money your employer can contribute to the accounts. Additionally, the maximum reimbursement amount credited under the HRA in the future may be increased or decreased by amounts not previously used. See *Balance in an HRA*, later.

Distributions From an HRA

Generally, distributions from an HRA must be paid to reimburse you for qualified medical expenses you have incurred. The expense must have been incurred on or after the date you are enrolled in the HRA.

Reimbursements under an HRA can be made to the following persons.

1. Current and former employees.
2. Spouses and dependents of those employees.
3. Any person you could have claimed as a dependent on your return except that:
 - a. The person filed a joint return,
 - b. The person had gross income of \$3,400 or more, or
 - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2007 return.
4. Spouses and dependents of deceased employees.

Qualified medical expenses.

Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, *Medical and Dental Expenses*. However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for HRA purposes.

Qualified medical expenses from your HRA include the following.

- **Amounts paid for health insurance premiums.**
- Amounts paid for long-term care coverage.
- Amounts that are not covered under another health plan.