HRC TOTAL SOLUTIONS

Administrative Update - February 13, 2009

Healthcare Reimbursement Arrangements (HRA) and COBRA

What is an HRA?

A Healthcare Reimbursement Arrangement (HRA) is a self insured health plan sponsored by an employer for the purpose of reimbursing an employee for certain out of pocket expenses associated with being enrolled in the group health plan. With the ever increasing premiums for healthcare coverage, employers are finding it necessary to offer a high deductible health plan to reduce their premium cost. Employers then offer to reimburse some or all of the deductible/co-pays associated with the high deductible health plan that a participant will incur. The HRA allows the employer to reimburse the employee for the covered expenses as outlined by the HRA legal document. Because an HRA is considered a self insured health plan, it is subject to the COBRA laws and regulations.

HRA and COBRA

Because the HRA is a company sponsored health plan, it is subject to COBRA. Under COBRA, employees have the right to elect to maintain their enrollment in the HRA. By electing to have their HRA while covered under COBRA, employees are able to submit their claims against the account for reimbursement. The real questions is not are employees allowed to have the account, but rather who is going to pay for the HRA expenses?

There are two schools of thought regarding who should be funding the HRA while it covers someone on COBRA. Most employers do not charge any premium assessment to the participant on COBRA because of the belief that no premium is being charged for regular employees who are enrolled on the HRA while employed. However, employers do have the right to charge a premium plus 2% to any COBRA participant who elects to have their HRA while on COBRA. To calculate the premium amount, several different methods have been developed; however, no specific guidance has been given by the government. The following methods appear to be the most popular:

1. If it is the first year of the HRA offering, an actuarially method must be used. Some guidance suggest taking the actual maximum claims that could be paid for each category of coverage (single, 2-person, family) and simply calculate this amount by 75%, add 2% for COBRA administration, and divide by 12 months to get a monthly premium per category.
2. Second year method might use an actuarially method or "past-cost" basis whereby a plan sponsor takes the past claims for the previous year per each category of coverage (single, 2-person, family) and adds the claims up, divide by the amount of covered participants per category, add 2% for COBRA administration, and divide by 12 to get the monthly premium per category.

All of the above rates would be calculated each year and rolled out to the COBRA participants. Regardless of which method is used, the entire balance of the annual election could be used from day one of the plan year by the COBRA participant.

HR Concepts strives to keep you updated in the regulations and changes that affect all your qualified plans. However, HR Concepts can never provide legal or tax advice. This outline is for discussion purposes only and should not be construed as legal advice or guidance. Any questions regarding COBRA laws and HRA's, an employer is directed to seek their own independent counsel.

Please do not hesitate to contact your client manager if you have further questions. Thank you for using HR Concepts as your administrator of choice!

Phone: 603-647-1147 • Fax: 1-866-978-7868 • email: info@hrcts.com • www.HRCTS.com • 111 Charles Street • Manchester, NH 03101