

# Health Reimbursement Arrangements (HRAs):

## *Reducing Healthcare Costs for Employers, Helping Employees Cover Expenses*

*By John E. DeGruttola*

As the cost of groceries soar, you think more carefully about managing your grocery budget – clipping coupons, searching for stores that offer the best quality and the best prices. Consumerism in healthcare is much the same. When you have an account out of which you pay for out-of-pocket expenses, you're careful about how you spend those dollars.

Several types of Consumer Directed Health Plans (CDHPs) coupled with different funding options, such as a Health Savings Account (HSA), Health Reimbursement Arrangement (HRA) and/or Flexible Spending Account (FSA) exist in today's health insurance market. All of these plans come with an added bonus – they reduce the cost of health insurance premiums for both employers and employees.

With CDHPs, employers and employees work in partnership to manage healthcare. These plans are a commitment that may combine education, incentives and rewards, rollovers and accumulations. The end result is educated consumers making informed decisions that improve their behavior and approach to healthcare that in the long run will control costs. This partnership is what makes CDHPs so unique.

Imagine if you will that health insurance is like auto insurance. You purchase a higher deductible on your auto insurance so that your monthly premium is lower. With the higher deductible, you're saving every month on the lower premium cost. You set aside that money for a day when you might incur an auto expense, such as a rock hitting your windshield and requiring you to replace it or a grocery cart scapping the side of your car requiring it to be buffed out. These unplanned expenses are paid for out of the money you've set aside every month.

### **Benefits to Employers**

A high deductible health plan with an HRA works in a similar way. As an employer, you select a high deductible plan for its lower monthly premium. You make a commitment to your employees that you will help pay for some of their out-of-pocket healthcare expenses and you can even decide which expenses you're going to help pay for. Then you use the money you've saved by having a lower monthly premium to pay for those expenses. Anything that doesn't get used by your employees, you get to keep.

As an employer, you control your healthcare expenses by having a lower premium, tax-free advantages, retaining unused funds and determining how funds are used. This puts YOU in the driver's seat.

### **Benefits to Employees**

So what do employees get out of an HRA? You get to keep comprehensive health insurance that your employer might not otherwise have been able to afford to continue offering. You, and your employer, enjoy a lower monthly premium. You get an account, established by your employer, to help you pay qualified, out-of-pocket expenses, which reduces your annual healthcare costs. Plus, you don't have to pay taxes on any of the funds you use from the HRA account. In the end, both you and your employer save money!



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