

# Health Reimbursement Accounts

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## IRS Ruling Opens Door to Retiree HRAs

In a private letter ruling (PLR) the IRS has affirmed the favorable tax treatment of the establishment of an HRA for an employer's eligible retirees as an alternative to the employer's health plan offering.

Under the proposal, employees hired before a certain date would be given a choice between:

- 1) The employer's existing plans, with premiums generally paid on an after-tax basis but also funded in part by mandatory conversion of accumulated and unused sick leave.
- 2) A retiree HRA funded exclusively by mandatory sick leave conversion.

*Note: Unused sick leave would not be available after retirement in any other form.*

Previous rulings have not allowed a choice of a contribution of unused leave to an HRA. Based on the ruling, amounts allocated to these HRAs can only be used to reimburse health insurance premiums and Code §213 medical care expenses of eligible retirees, their spouse, and eligible dependents, other than spouses' group health insurance paid with pre-tax dollars. In addition, the HRAs could be used to reimburse health insurance premiums, but not other medical expenses, for eligible retirees' registered domestic partners.

Under no circumstances may the eligible retiree or any beneficiary receive any conversion amounts at any time in cash or other benefits. Any unused amounts remaining after a retiree's death would continue to be available for benefit of the retiree's eligible beneficiaries.

Importantly, the ruling concludes that contributions to the proposed retiree HRAs that used to pay for eligible medical expenses, will be excludable from the retirees gross income and will not be considered wages for the purpose of FICA, FUTA or federal income tax withholding.

## NEXT STEPS

➤ *Consider your retiree plan offerings and whether a reimbursement arrangement is the right addition to your retiree plan options. Coordinate with your benefits brokerage partner to consider options.*

➤ *We can help! If the HRA option is right for you, we have the plan setup and adjudication processes in place to support it.*

*Don't offer an HRA? Do you have questions? Baker Tilly Vantage can help!*

## CONTACT

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