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Leveraging HRAs for Cost Savings and Comprehensive Benefits

With rising healthcare costs, employers increasingly face a balancing act—offering valuable health benefits while managing budget constraints. For insurance brokers and employee benefits consultants, Health Reimbursement Arrangements (HRAs) provide a solution to help employers achieve this balance, offering flexible plan designs that both control costs and ensure comprehensive benefits for employees.

This paper explores how brokers can strategically design HRAs to address their clients' specific needs, with real-world examples that showcase the impact these plans have on healthcare costs and employee satisfaction. By leveraging Flex's expertise as an HRA administrator, including our seamless carrier claims integration, brokers can offer customized solutions that maximize value and simplify the process for employers and employees alike.

The Value of HRAs in Today's Healthcare Landscape



An HRA is an employer-funded account that reimburses employees for qualified medical expenses, which can include everything from deductibles to specific out-of-pocket costs. Unlike traditional health insurance plans HRAs allow employers to tailor their healthcare offerings, using creative plan designs to meet unique financial objectives.

In particular, HRAs are valuable because they allow employers to:

- **Control healthcare spending:** HRAs can help reduce insurance premiums by pairing with higher deductible plans. This often results in significant premium savings without substantially impacting the employees' out-of-pocket responsibility. Because an HRA is a "promise to pay" benefit, the employer only incurs costs if employees have eligible out-of-pocket expenses, making it a cost-effective solution for managing healthcare spending.
- **Increase flexibility:** HRAs allow employers to define what expenses are reimbursed, when the reimbursements start, and the maximum reimbursement amount, making it possible to design highly customized plans.
- **Provide sustainable benefits:** Since HRAs can be adjusted year to year, employers can continuously refine benefits in response to healthcare market changes.

Designing HRAs for Cost Savings and Comprehensive Coverage

By designing HRAs with a strategic approach, brokers can ensure that employerclients achieve both cost savings and benefit effectiveness. To illustrate this,we've compiled three examples of successful HRA plans designed to providecomprehensive coverage while keeping costs in check.

Case Study: Integrated HRA with a Fully Insured Health Plan

Background

An employer was facing a large premium increase for its existing health plan, which provided a comprehensive benefits package with low out-of-pocket costs.

With the renewal increase bringing the anticipated cost to $1.3 million, the employer needed a solution to maintain benefits without sacrificing affordability. Their broker proposed a strategy that would leverage an Integrated Health Reimbursement Arrangement (HRA) to help the employer control premium costs while maintaining competitive coverage for employees.

The Solution: Adjusted Plan Design with Integrated HRA

The broker recommended increasing the deductible and out-of-pocket maximums on the health plan while adding an Integrated HRA to cover a portion of these higher costs, if they occur. This design change allowed the employer to reduce premium expenses while ensuring employees had manageable out-of-pocket exposure. Employees would be responsible for the first $1,000 of deductible expenses, and then the HRA would reimburse them for the remaining out-of-pocket expenses up to the maximum out-of-pocket limit.

	Renewal Plan	Proposed New Plan
Deductible	$250 single / $750 family	$7,000 single / $14,000 family
Out-of-Pocket Maximum	$1,250 single / $3,750 family	$7,000 single / $14,000 family
HRA Allocation	N/A	$6,000 single / $12,000 family
Total Employee Out-of-Pocket Responsibility	$1,500 single / $4,500 family	$1,000 single / $2,000 family
Total Annual Premium	$1,300,000	$800,000

By combining the premium savings with the HRA reimbursements, the employer could offer a financially sustainable benefits package that employees could still rely on for comprehensive coverage.

Employer Financial Impact

The shift to a higher deductible plan with an Integrated HRA resulted in significant savings for the employer. The new health insurance premium dropped to $800,000, a 20% decrease from the original pre-renewal cost of $1,000,000. The HRA was projected to be utilized at an average rate of 25%, equaling approximately $100,000 in annual reimbursement expenses, bringing total cost to $900,000. Here's how the costs broke down:

- **Annual Premium with Renewal Plan:** $1,300,000
- **Annual Premium with Level-Funded Plan:** $800,000 + **Estimated HRA Reimbursements (25% Utilization Rate):** $100,000
- **Total Annual Costs with Integrated HRA:** $900,000
- **Total Savings Compared to Renewal Premium:** 30%

Impact on Employees

The revised plan design ensured that high medical spenders still had manageable out-of-pocket costs. Under the previous plan, maximum out-of-pocket expenses were $1,250 for single coverage and $3,750 for families. With the Integrated HRA, employees saw their out-of-pocket maximums lowered to $1,000 for single coverage and $2,000 for family coverage, making healthcare more affordable for employees while preserving access to the same network of providers.

Case Study: Integrated HRA with a Level-Funded Plan

Background

In this case, a broker worked with an employer facing a substantial premium increase on their fully insured health plan. The employer had historically provided a robust benefits package, including a fully insured health plan with a low deductible and comprehensive out-of-pocket coverage. However, as the health insurance renewal approached, the employer received a 15% increase on their existing plan.

Faced with these rising costs, they sought alternatives that would allow them to maintain a high level of benefits while keeping costs under control. The total premium cost was becoming unsustainable, and the employer was hesitant to pass additional costs onto employees or reduce benefit coverage.

The Solution: Level-Funded Plan with an Integrated HRA

The broker presented the employer with a solution: transitioning from the fully insured plan to a Level-Funded health plan paired with an Integrated HRA. Unlike ACA plans, Level-Funded plans are subject to medical underwriting, which allows the carrier to set more accurate premiums based on the group's health risks. The employees were generally young and healthy, which resulted in much lower premiums. As a bonus, if claims run better than expected, the employer may receive a portion of the unused claim fund as a refund or a credit at the end of the plan year.

Pairing the Level-Funded health plan with an HRA would reduce the overall premiums and allow the employer to reimburse a portion of the employees' out-of-pocket expenses, creating a balance between cost savings and benefits coverage. Employees were responsible for the first $1,000 (single) and $2,000 (family) of out-of-pocket expenses before HRA reimbursements began.

	Renewal Plan	New Proposed Plan Design
Deductible	$500 single / $1,500 family	$5,000 single / $10,000 family
Out-of-Pocket Maximum	$2,000 single / $4,500 family	$5,000 single / $10,000
HRA Allocation	N/A	$4,000 single / $8,000 family
Total Employee Out-of-Pocket Responsibility	$2,500 single / $6,000 family	$1,000 single / $2,000 family
Total Annual Premium	$900,000	$630,000

Employer Financial Impact

The Level-Funded plan's lower premiums represented a 30% savings over the fully insured plan, cutting the total premium cost from $900,000 to $630,000. The broker projected HRA utilization to be around 25%, resulting in approximately $118,750 in HRA reimbursements over the plan year. This utilization rate brought the combined health plan and HRA costs to about $748,750, translating to an overall savings of 16.8% compared to the fully insured plan. Here's how the cost breakdown looked:

- **Annual Premium with Renewal Plan:** $900,000
- **Annual Premium with Level-Funded Plan:** $630,000 + **Estimated HRA Reimbursements (25% Utilization Rate):** $118,750
- **Total Annual Costs with Integrated HRA:** $748,750
- **Total Savings Compared to Renewal Premium:** 17%

Employee Impact

Despite the higher deductible and out-of-pocket costs on the Level-Funded plan, the Integrated HRA actually lowered the employees' total exposure. This design reduced the likelihood of employees experiencing higher financial strain and preserved the quality of coverage they were accustomed to.

Case Study: Bundling an HSA-Compatible HRA Plan Design with Additional Benefits

Background

This mid-sized employer faced increasing pressure to manage rising healthcare expenses while offering competitive benefits to attract and retain top talent. Their existing group health plan came with a significant financial burden, and the renewal premium was projected to be $2,743,243 annually. While the plan was valued by employees, its high cost strained the employer's budget and limited opportunities to invest in other areas of the business. Seeking a way to reduce costs without compromising benefit quality, the employer turned to their broker for innovative solutions.

The Solution: HSA-Compatible Plan with an Integrated HRA and Expanded Benefits Package

Following a thorough review of options, the broker recommended an HSA-compatible plan that combined high-deductible health coverage with a post-deductible HRA and additional bundled benefits. HRA reimbursements would not begin until after the employees had satisfied the statutory minimum deductible for HDHPs, offsetting their increased out-of-pocket expenses while preserving their HSA eligibility.

Under the new plan design, employees would pay the first $2,000 (single) or $4,000 (family) of deductible expenses before the HRA reimbursement started. The HRA utilization rate was estimated to be around 15%, resulting in anticipated HRA reimbursements totaling $101,250 for the plan year.

	Renewal Plan	New Proposed Plan
Deductible	$1,000 single / $3,000 family	$5,000 single / $10,000
Out-of-Pocket Maximum	$2,000 single / $6,000 family	$5,000 single / $10,000
HRA Allocation	N/A	$3,000 single / $6,000 family
Total Employee Out-of-Pocket Responsibility	$3,000 single / $9,000 family	$2,000 single / $4,000 family
Total Annual Premium	$2,743,243	$2,030,000

Expanded Benefit Offerings

To make this high-deductible health plan more attractive to employees, the broker recommended the employer use the premium savings to offer a range wellness benefits and tax-advantaged accounts, enabling a 30% tax savings on the employees' out-of-poc ket medical, dental, and vision expenses.

- **Health Savings Account (HSA):** The HSA-compatible plan allowed employees to open Health Savings Accounts to cover qualified medical expenses with pre-tax dollars. With the flexibility of an HSA, employees could carry over unused funds year-to-year, adding long-term value to their benefit package.
- **Limited Purpose Flexible Spending Account (LPFSA): T**o address employees' dental and vision needs, the employer established a Limited Purpose FSA, enabling employees to use pre-tax dollars exclusively for dental and vision expenses. This account reduced employee costs in these key areas without interfering with their HSA eligibility.
- **Lifestyle Spending Account (LSA):** Using a portion of the premium savings, the employer created an LSA to promote employee wellness. This post-tax account provided employees with up to $300 annually to cover wellness-related expenses, such as gym memberships, mental health apps, fitness classes, and other qualified activities. The LSA added a valuable wellness benefit that went beyond traditional healthcare.

Employer Financial Impact

The shift to an HSA-compatible high-deductible health plan with an HRA saved the employer 22% compared to the renewed premium of their previous plan. Here's how the costs broke down:

- **Annual Premium with Renewal Plan:** $2,743,243
- **Annual Premium with Level-Funded Plan:** $2,030,000 + **Estimated HRA Reimbursements (15% Utilization Rate):** $101,250
- **Total Annual Costs with Integrated HRA:** $2,131,250
- **Total Savings Compared to Renewal Premium:** 22%

By applying part of these savings to facilitate HSAs, set up an LPFSA, and create a new LSA, the employer not only reduced their healthcare spending but also improved the overall benefit experience for employees.

Employee Impact

The HRA and bundled benefits helped employees handle the higher upfront costs associated with the high-deductible plan. Although they had a larger upfront portion, the HRA reimbursement lowered their maximum exposure, keeping their costs manageable. Plus, with HSAs and LPFSAs, employees could cover their qualified medical, dental, and vision expenses with tax-free dollars. The new wellness benefit also provided value, enhancing the overall appeal of the benefits package.

Key Takeaways

HRAs are versatile and powerful tools that enable employers to strike a balance between controlling healthcare costs and maintaining a competitive, employee-friendly benefits package. Across the case studies in this white paper, several key themes emerge:

- **Cost Management Without Sacrificing Value**

  Integrated HRAs allowed employers to navigate significant premium increases or transition to cost-saving plan designs while preserving—or even enhancing—benefits for employees. Whether through offsetting high deductibles or covering post-deductible expenses, HRAs ensured employees had access to comprehensive healthcare coverage without bearing undue financial strain.

- **Flexible Solutions for Diverse Needs**

  Brokers leveraged innovative plan designs, such as transitioning to Level-Funded plans or implementing HSA-compatible strategies, to align benefit offerings with employers' financial goals. By tailoring solutions to the unique needs of each client, brokers helped employers achieve substantial cost savings while fostering employee satisfaction.

- **Employee-Centric Approach to Benefits**

  By designing plans that included HRAs or other supplemental benefits, employers could maintain a high-value benefits package that supported employee retention and satisfaction. Comprehensive coverage paired with manageable out-of-pocket costs created a positive healthcare experience for employees, fostering trust and loyalty.

With the right strategy, brokers can guide employers toward solutions that balance cost savings with employee satisfaction. HRAs stand out as a cornerstone of these strategies, offering financial relief for employers while improving the healthcare experience for employees.

Why Flex for HRA Administration?

Partnering with Flex gives brokers a unique advantage in offering HRA plans that are easy to manage and beneficial for both employers and employees. Flex provides comprehensive HRA services that simplify administration and enhance the experience for employers and employees.

Customized Plan Designs for Employer Flexibility: Flex collaborates closely with brokers to establish HRA plans that align with clients' financial goals and benefit structures. Working with Flex enables brokers to provide clients with adaptable, high-value benefit solutions.

Streamlined HRA Claims Processing: Flex's carrier claims integrations* automate HRA claims processing. This means employees don't need to submit additional paperwork, and reimbursements are made directly based on information submitted by the insurance carrier, reducing delays and administrative tasks. Our simplified claims processes lead to higher employee satisfaction and increased engagement with benefits. With Flex's seamless integration, employees experience a more user-friendly process, boosting their confidence in using HRAs effectively.

Seamless Multi-Benefit Administration: In addition to HRAs, Flex offers a variety of benefit programs, from FSAs and HSAs to COBRA and Direct Bill Administration, allowing clients to efficiently manage multiple offerings through one trusted partner. This streamlined approach not only reduces administrative burdens but also ensures that employees have easy access to comprehensive benefits, all in one portal, and all backed by our exceptional service and support.

Dedicated Client Support: Flex's dedicated support team ensures clients receive hands-on assistance from implementation through ongoing administration. This commitment to client success makes Flex a trusted partner for brokers looking to deliver exceptional service.

Employer and Employee Education: Flex's support includes educational resources on how to use HRAs effectively, increasing employee engagement and utilization of available benefits.

**Availability varies by carrier.*