The State of Delaware

Health Reimbursement Account (HRA)/ Individual Marketplace Overview

SEBC Retiree Healthcare Benefits Advisory Subcommittee

April 26, 2023

Disclaimer

Willis Towers Watson has prepared this information solely in our capacity as consultants under the terms of our engagement with you with knowledge and experience in the industry and not as legal advice. This information is exclusively for the State of Delaware's State Employee Benefits Committee to use in the management, oversight and administration of your state employee group health program. It may not be suitable for use in any other context or for any other purpose and we accept no responsibility for any such use.

Willis Towers Watson is not a law firm and therefore cannot provide legal or tax advice. This document was prepared for information purposes only and it should not be considered a substitute for specific professional advice. As such, we recommend that you discuss this document with your legal counsel and other relevant professional advisers before adopting or implementing its contents. This document is based on information available to Willis Towers Watson as of the date of delivery and does not account for subsequent developments after that date.

Willis Towers Watson shares available medical and pharmacy research and the views of our health management practitioners in our capacity as a benefits consultant. We do not practice medicine or provide medical, drug, or legal advice, and encourage our clients to consult with both their legal counsel and qualified health advisors as they consider implementing various health improvement and wellness initiatives.

This material was not prepared for use by any other party and may not address their needs, concerns or objectives. This document may not be reproduced, disclosed or distributed to any other party, whether in whole or in part, other than as agreed with you in writing, except as may be required by law.

We do not assume any responsibility, or accept any duty of care or liability to any other party who may obtain a copy of this material and any reliance placed by such party on it is entirely at their own risk.

Health Reimbursement Arrangement (HRA) overview

What is an HRA?

An HRA is a tax-free arrangement where an employer provides an annual contribution which can be used to offset the cost of a retiree's Medicare medical plan coverage.

Generally, a retiree will have access to their HRA funds to reimburse themselves for some or all of the cost of their and/or their dependent(s) health insurance premiums and/or other eligible healthcare expenses, such as copays and coinsurance.

	Health Reimbursement Arrangements (HRAs)
Funding Requirements	Can be funded, but not required; commonly designed as **notional accounts** with reimbursements made from employer's general assets
Reimbursable Expenses	May reimburse for IRC §213(d) **medical care expenses**, which includes OTC drugs *with a prescription*, and amounts paid for **health plan premiums**, e.g., employer-sponsored retiree health coverage, Medicare premiums, COBRA, long-term care insurance premiums HRA is not required to reimburse all types and categories of IRC §213(d) medical care expenses; employer can design HRA to reimburse any/all IRC §213(d) expenses
Carryover of Unused Balances	**Unlimited carryover permitted**, subject to any limits set by the employer plan sponsor in plan documents
Tax Treatment of Employer Contributions	Employer contributions are **excludable from employees/retirees' taxable gross income**
Tax Treatment of Distributions	Reimbursements of IRC §213(d) medical care expenses are **exempt from taxable gross income** Reimbursements for non-medical expenses are prohibited

Health Reimbursement Arrangement (HRA) overview

What expenses are eligible for HRA reimbursement?

An HRA can be used for qualifying out-of-pocket health care expenses, including:

- Medical, prescription drug, dental and/or vision premiums for plans purchased through a Medicare exchange or purchased on your own
- Medicare Part B premiums
- Qualified medical, hearing aid, dental and vision care expenses
- Premiums for other voluntary benefits

	Health Reimbursement Arrangements (HRAs)
Funding Requirements	Can be funded, but not required; commonly designed as **notional accounts** with reimbursements made from employer's general assets
Reimbursable Expenses	May reimburse for IRC §213(d) **medical care expenses**, which includes OTC drugs *with a prescription*, and amounts paid for **health plan premiums**, e.g., employer-sponsored retiree health coverage, Medicare premiums, COBRA, long-term care insurance premiums HRA is not required to reimburse all types and categories of IRC §213(d) medical care expenses; employer can design HRA to reimburse any/all IRC §213(d) expenses
Carryover of Unused Balances	**Unlimited carryover permitted**, subject to any limits set by the employer plan sponsor in plan documents
Tax Treatment of Employer Contributions	Employer contributions are **excludable from employees/retirees' taxable gross income**
Tax Treatment of Distributions	Reimbursements of IRC §213(d) medical care expenses are **exempt from taxable gross income** Reimbursements for non-medical expenses are prohibited

How does an HRA work?

1. Employer sets up the HRA	The employer creates an HRA and establishes parameters for the plan: • Annual HRA amount • Define eligible expenses (premiums, out-of-pockets expenses, etc.) • Carryover provisions
2. Retiree incurs expenses	Retiree enrolls in a Medicare plan (Medigap, Medicare Advantage, Part D, etc.) or incurs an eligible expense (Part B premium, copay, coinsurance, etc.) and pays the insurance carrier or provider directly
3. Retiree submits for reimbursement	Retiree submits a claim to the HRA administrator, providing documentation of the medical expense, such as a receipt or invoice
4. Retiree reimbursed	The administrator reviews the claim to ensure it is eligible under the plan rules, and then reimburses the retiree for the approved amount. • Many HRA administrators have an automatic reimbursement process

If the RHBAS elects to continue exploring an HRA/Individual Marketplace option, to address some of the more detailed questions about HRA mechanics and administration, WTW suggests including a senior operations resource from its individual marketplace solution (Via Benefits) at a future RHBAS meeting for a deeper dive into this area. The Via Benefits team has over 15 years' experience operating WTW's private individual marketplace for employers and retirees.

How does the Individual Medicare Marketplace work?

Plan Sponsor

- Provides eligibility and HRA information
- Provides access to Medicare Marketplace

Individual Medicare Marketplace

Retiree Support

- Offers access to Individual plans
- Communications and education
- Helps participants find best fit plans
- Advocacy

Retiree selects coverage and benefits

Choice of Plans and Carriers

- **Medicare Supplement** (Medigap)
- **Prescription Drug** (Part D)
- **Medicare Advantage** with Rx

Supplemental Health Insurance

- Accident Medical Plans*
- Dental, Hearing, Vision
- Hospital Indemnity Plans*
- Critical Illness Plans*
- Home Care Insurance
- Short Term Medical

*Available in pre-65 marketplace only

Administers HRA

- HRA reimburses retiree for eligible expenses (such as premiums, deductibles, copays, dental, vision, etc.)

Overview of the marketplace modeling process

Calculate the financial impact of moving from the current group sponsored plan to a new plan that subsidizes the purchase of individual insurance

Variable Costs		Fixed Costs		
Out-of-Pocket Costs • Deductibles • Co-pays • Coinsurance	+	**Premiums** • Employer plan • Rx Premium(s) • Medical Premium(s)	=	**Total Retiree Costs**

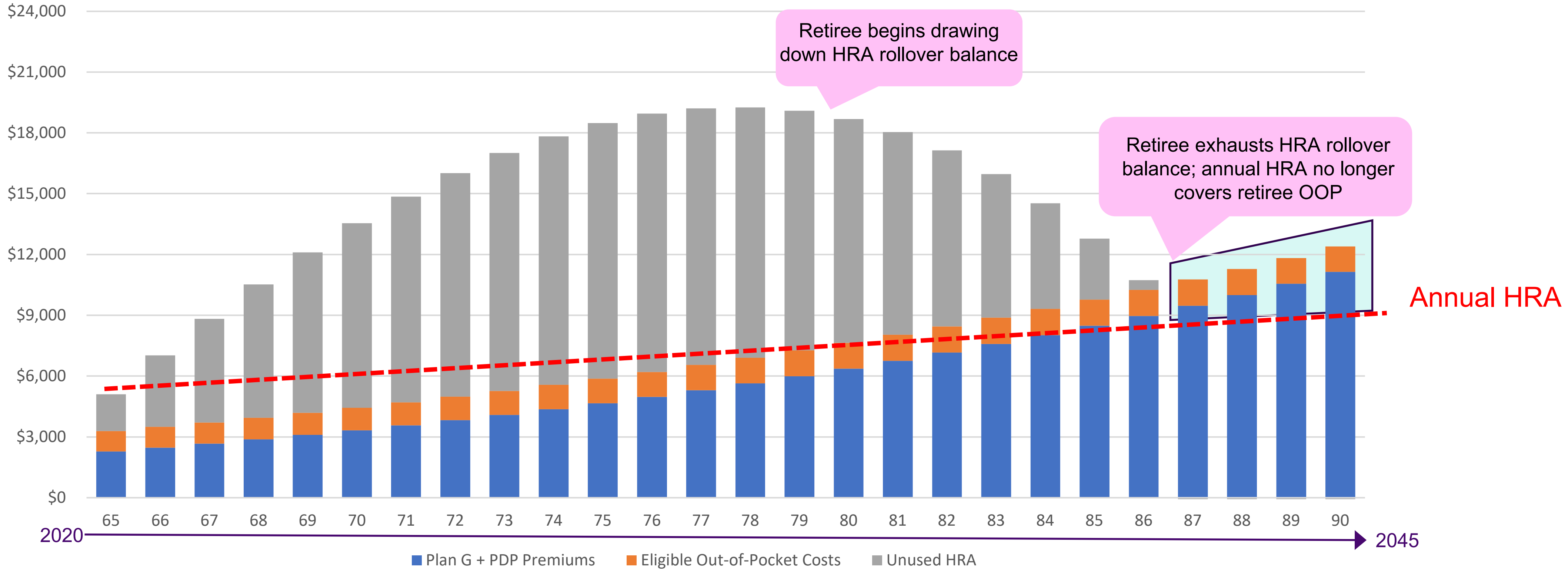
Variables that determine costs:

Utilization	Choice	Geography	Age
Amount of services a retiree uses	Costs will depend on level of benefit chosen by retiree	Individual insurance rates vary by location	Individual Medicare Supplement rates vary by age

Retiree impact analysis – Long term view (illustrative)

Presented to RBSC on 9/27/2021

Retiree healthcare costs and unused HRA by age



- Medigap/Medicare Advantage premiums and average out-of-pocket expenses generally increase with age and health care trend
- Retiree may not use full HRA allotment in certain years; unused HRA amount rolls over and accumulated HRA balance can be used to pay for qualified premiums and out-of-pocket expenses in future years
- HRA rollover amounts will vary based on retiree utilization and plan elections; the chart above reflects estimated premiums for Medigap Plan G, the richest and highest premium Medigap plan offered to all new retirees. Younger retirees and/or lower utilizers will likely have access to cheaper plans in the Marketplace to maximize HRA savings

Note: long term illustration assumes retiree is age 65 in 2020 and reflects average Medigap Plan G with PDP premium across GHIP footprint; $5,100 HRA per individual provided annually; $1,000 in qualified out-of-pocket expenses at age 65; HRA indexed at 2% and premiums increase at health care trend assumptions per Cheiron OPEB Valuation as of October 2020; retiree would also continue to pay Medicare Part B premium, consistent with current Medicfill plan offering