Attract Quality Employees With the Right HRA

Health reimbursement arrangements (HRAs) are a tool employers can use to curb health care costs. Since the IRS announced their tax-advantaged status in the early 2000s, HRAs have become increasingly popular with many employers. They allow you to:

- Design, budget and manage health benefits and costs
- Determine eligibility, contribution limits, rollover amounts and approved expenses
- Manage your cash flow by keeping a notional account instead of a prefunded account, allowing you to make payments after employees provide proof of qualified medical expenses
- Make contributions that are exempt from federal income and payroll taxes
- Retain funds after an employee leaves your organization

Over the past 20 years, the types of HRAs created have resulted in an alphabet soup of offerings. To give you a taste of their potential applications, let's examine four common types:

- Qualified small-employer HRAs (QSEHRA)

- Individual coverage HRAs (ICHRA)
- Group coverage HRAs (GCHRA)
- Excepted benefit HRAs (EBHRA)

QSEHRAs

If you have fewer than 50 employees, QSEHRAs are an option for you. But there are important restrictions to know about:

- You cannot offer a QSEHRA in conjunction with a group health plan.
- Employees must find their own health insurance with qualifying health coverage.

As with all types of HRAs, you control the plan design and costs by dictating your contribution levels and qualifying health expenses. Then employees can submit expenses to you for reimbursement.

In 2021, you can provide contributions up to:

- $5,300 for individual employees
- $10,700 for employees with dependents

You can set a lower amount for your maximum contribution each year, but the amount must be the same for all similarly situated individuals. The only allowable difference is based on family status, as noted in the amounts above.

QSEHRAs must be offered to all eligible employees, but you have some leeway in determining eligibility. For example, you can decide to exclude:

- Part-time or seasonal employees
- Employees with fewer than 90 days of service
- Employees who are under the age of 25 at the beginning of the plan year
- Employees who receive health benefits under a collective bargaining agreement

QSEHRAs can be used to reimburse costs related to:

- Premiums
- Medical expenses

You can design your QSEHRA to reimburse solely for premiums, or for both premiums and medical expenses.

ICHRAs

You can offer an ICHRA regardless of the number of employees you have. ICHRAs have many of the same advantages as QSEHRAs, including tax-advantaged contributions and reimbursements.

Important details to know about ICHRAs include:

- There are no caps on the amount you can contribute to an ICHRA. You also have the discretion to offer a higher amount to older employees or employees with more dependents, but the contribution to your oldest participant must be less than three times the amount offered to your youngest participant. And contributions must be uniform within age groups. For example, all participants who are 40 years old must be provided the same amount.
- To use an ICHRA, employees must be covered by individual health insurance that satisfies Affordable Care Act (ACA) mandates on preventive care and essential health benefits.
- You cannot offer a choice between a group health plan and an ICHRA. However, you can offer group coverage to certain classes of employees and an ICHRA to other classes of employees.

In 2019, the IRS published a rule defining eligible class distinctions as:

- Full-time employees
- Part-time employees
- Salaried employees
- Nonsalaried (hourly) employees
- Temporary employees from a staffing firm
- Seasonal employees
- Employees covered by a collective bargaining agreement
- Employees who have not met your waiting period for coverage
- Employees hired after a certain date
- Nonresident aliens with no income in the United States
- Employees in the same rating area under the ACA

You can combine any of the above classes. For example, you could have a class of nonsalaried full-time employees and a class of salaried full-time employees.

If you offer traditional group health coverage to at least one class of employees, you must follow certain minimum class sizes for all classes that are offered an ICHRA. (New hires and those ineligible due to the waiting period are excluded from this provision.)

The minimum class size depends on the number of employees you have on the first day of the plan year:

- 10 employees if you have fewer than 100 employees
- 10% of employees if you have between 100 and 200 employees
- 20 employees if you have more than 200 employees

ICHRAs can be used to reimburse costs related to:

- Premiums

- Medical expenses

As with QSEHRAs, you can design your ICHRA to reimburse solely for premiums, or for both premiums and medical expenses.

GCHRAs

GCHRAs are also known as integrated HRAs because employers often pair them with group health coverage. As with ICHRAs, you can offer a GCHRA regardless of the size of your employee population.

To use a GCHRA, you must provide group health insurance to your employees, and they must be enrolled in the plan. The GCHRA must also be offered to all eligible employees under the same terms.

GCHRAs allow you to supplement employee out-of-pocket costs that aren't covered by the group plan, such as deductibles. You decide on the monthly reimbursement amount that employees can use for their out-of-pocket expenses. There are no minimum or maximum amounts. Employees can receive different amounts based on family status or job classification, like:

- Salaried
- Hourly
- Full time
- Part time

Further, you can determine minimum deductibles and cost sharing. For example, an employee may have to pay the first $500 of expenses before using the GCHRA. Or the employee may be required to cover 50% of any cost before using GCHRA funds to be reimbursed for the remaining 50%.

You also create the list of approved out-of-pocket expenses. Commonly approved expenses are:

- Medical provider visits
- Prescription drugs
- Chiropractic care

While GCHRAs can be used to reimburse costs for eligible medical expenses, they cannot be used to reimburse employees for individual health insurance premiums, including Medicare Parts B or D.

EBHRAs

You can offer an EBHRA, which reimburses employees for certain limited benefits, regardless of how many employees you have.

Some important points to note about EBHRAs:

- You must offer a separate group health plan to employees who are offered the EBHRA. Employees are not required to enroll in your group plan to take part in the EBHRA, but they must have the option.
- The EBHRA cannot be a vital part of your group health plan. It can only cover excepted benefits.
- You cannot offer an EBHRA and an ICHRA to the same employees.

EBHRAs can be used to reimburse employees for:

- Coinsurance and copayments for individual health coverage
- Eligible expenses under Internal Revenue Code Section 213(d) that are not covered by your traditional group health plan
- Premiums and cost-sharing expenses for dental, vision, long-term care, nursing home care and short-term health insurance

EBHRAs cannot be used to reimburse premiums for:

- Individual coverage if it covers more than excepted benefits
- Traditional group coverage if it covers more than excepted benefits
- Medicare Parts A, B, C or D

There is a maximum amount that an EBHRA can reimburse, adjusted annually for inflation. For 2021, this amount is $1,800. It applies to all participants, regardless of age or dependents.

Find the right coverage

All types of HRAs are considered group health plans and are subject to the Employee Retirement Income Security Act. As such, they require plan documents and summary plan descriptions. Antidiscrimination rules also apply.

But when done right, HRAs can be a great way to retain flexibility and budgetary control while offering attractive benefits to your employees. Contact your insurance broker or benefits adviser to see whether an HRA could be a solution for your business needs.

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