The QSEHRA

HealthJibe

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Introduction

The qualified small employer HRA (QSEHRA) is defined-contribution model for providing health benefits to employees.

With an QSEHRA, a company offers employees a monthly reimbursement allowance or permitted benefit. Employees then purchase an individual health insurance policy and submit reimbursement requests each month when they receive their bill from the insurance company up to the reimbursement allowance.

The QSEHRA differs from other currently available HRAs in several ways:

- The business must have fewer than 50 FTE employees
- The business must not offer a group health plan to any employees
- The QSEHRA must be offered to all eligible employees on the same terms with little flexibility other than part-time, seasonal, collectively bargained, or employees under age 25 may be excluded
- Reimbursement amounts are capped by federal law: $5,150 for individual employees and $10,450 for employees with dependents
- Provide reimbursement for employees' insurance premiums only after the employee provides proof of minimal essential health insurance coverage
- A QSEHRA can be paired with a dependent care flexible spending account (FSA) to provide additional tax savings for employees and employers

With these features the QSEHRA small businesses can now offer a competitive health benefit to employees without the need for a complicated, expensive group health plan.

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How the QSEHRA works

Like all HRAs, the QSEHRA follows a simple, five-step process: 1) the company defines employee eligibility and 2) offers an allowance, 3) employees buy health care, 4) employees submit proof of incurred expenses, and the 5) company approves and pays the reimbursement directly to the employee.

1. The business defines employee eligibility

   The business has some flexibility in defining QSEHRA eligibility based on employee classes such as full-time, part-time, etc. Additionally, all employees (and their families, if eligible) must be covered by an individual health insurance policy or Medicare to participate in the QSEHRA.

2. The business sets an allowance amount for employees

   The business offering the QSEHRA chooses a monthly amount of tax-free money it will make available to employees. This is the maximum amount for which employees can be reimbursed through the benefit. The amount is capped at $5,150 for individual employees and $10,450 for employees with dependents.

3. The business determines eligible expenses

   The business decides what expenses are eligible for reimbursement under the QSEHRA beyond health insurance premiums. For example, some businesses also reimburse for cost sharing expenses such as deductible and co-payments. Generally, all items listed in IRS Publication 502 are eligible for reimbursement through the QSEHRA.

4. Employees buy health insurance

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Using their own money, employees purchase the health insurance policy that fits their personal needs.

5. Employees submit proof of purchase

   After incurring an expense, employees submit proof of it to the business. Employees must also attest to having individual health insurance every time they submit a reimbursement request before it can be approved. The documentation must include three items: a description of the product or service, the cost of the expense, and the data the expense was incurred. Invoices, receipts, or explanation of benefits from the employee’s insurance company typically satisfy this requirement.

6. The business reimburses employees

   If the documentation provided by the employee meets requirements, the expense is eligible for reimbursement and the employee has the appropriate insurance coverage, the business must approve the employee’s request and reimburse them up to their allowance amount. If the expense doesn’t qualify, the business must follow the procedure for denied claims according to its QSEHRA plan documents.

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The QSEHRA and premium tax credits

IRS Code Section 36B—which was amended by the 21st Century Cures Act—states that employees, their spouses, and their dependents are not eligible for premium tax credits during any month in which their QSEHRA allowance qualifies as "affordable coverage."

If the QSEHRA doesn't provide affordable coverage, the employee's premium tax credit will be reduced by the amount of their monthly QSEHRA allowance.

An QSEHRA is considered affordable if the cost of health insurance for an employee is less than 9.86% of the employee's household income. The second-lowest-cost silver plan on the local exchange is the standard for the calculation with an employer's QSEHRA contributions being subtracted from the premium.

That means the monthly premium for the second-lowest-cost silver plan, minus the QSEHRA monthly allowance being offered, should not exceed 9.86% of the employee's household income for the month. If this requirement is not met, the employee would be eligible to receive a premium subsidy in addition to the reimbursement that the employer provides. The QSEHRA benefit is subtracted from the premium subsidy, however, so there's no "double dipping."

> For the 2019 plan year the required contribution percentage is 9.86 percent. For 2020, it is 9.78 percent. If this requirement is met, the QSEHRA is considered affordable.

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Is the QSEHRA right for my business?

Eligibility requirements

The QSEHRA can be offered by qualified small employers with fewer than 50 full time employees. The business decides whether to include part-time employees or limit the offer to only full-time employees, all of whom are automatically eligible. If the company includes part-time employees, they must offer the benefit the same way to both employment statuses. 1099 employees aren't eligible for the QSEHRA. Businesses can't offer a QSEHRA and a group plan at the same time. Employees that qualify for a premium tax credit can participate in the QSEHRA, but the tax credit must be reduced by the amount of their QSEHRA allowance.

The QSEHRA might be best suited for companies:

- That have fewer than 50 full time employees
- That have employees who are on their spouse's insurance and want to provide a benefit that helps them too
- That don't have a high number of employees on premium tax credits
- That don't offer group health insurance and have no plans to do so

Why not just give employees a pay raise?

Many small businesses might think it's easiest to just give employees a raise instead of offering an HRA. But there are some key points to keep in mind.

Unlike an HRA, a salary increase is taxable for both the company and the employee. That's less money for the employee to use on a health insurance policy than they might receive through an HRA, and it costs the company additional payroll taxes, which adds hundreds of dollars per year per employee in company taxes. Additionally, the salary increase is lost to the company, even if the employee doesn't use it on health insurance or medical expenses.

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An HRA allows the company to keep unused funds. Giving employees raises might save a company from compliance requirements associated with an HRA, but it will wind up costing both parties more in taxes, which may be unwelcome. Also consider the psychology behind issuing a pay raise. Even if the purpose and spirit of the raise is to function as a health benefit, employees may not see it that way; they may just view it as a raise instead of a company health benefit.

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How to set up an QSEHRA for 2020

There are five steps required to set up an QSEHRA and start offering the benefit to employees:

1. Choose who will be eligible

   The first step is deciding who will be eligible for your QSEHRA based on 11 employee classes:

   - Part-time employees
   - Seasonal employees
   - Employees in a waiting period
   - Collectively bargained employees
   - Employees under age 25

2. Set employee allowance amounts

   Set your budget and determine employee allowance amounts.

   - Reimbursement amounts are capped by federal law: $5,150 for individual employees and $10,450 for employees with dependents.

   PRO TIP: Keep it simple and offer the same amount for every employee.

3. Pick a start date

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Once you've made the initial decisions on your plan design, you should choose a date on which the QSEHRA benefit will begin. If you're choosing to cancel a group health insurance policy, you should set the QSEHRA start date one day after the cancellation takes effect.

PRO TIP: Offer your QSEHRA on a calendar year basis to simplify enrollment and tax reporting.

4. Provide legal plan documents

Both the IRS and the Department of Labor require that your business establish a formal plan document and summary plan document (SPD) to govern any employer-sponsored health benefit, including the QSEHRA.

5. Communicate the QSEHRA to employees

Inform your employees about the QSEHRA plan including the amount of their allowance, what can be reimbursed, how to request reimbursement, and how participation in the benefit affects their eligibility for premium tax credits. Also remind them of their responsibility to purchase individual health insurance using the resources provided by the carriers in their state or their state's health care exchange.

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About HealthJibe

HealthJibe is a benefits administration platform offering small and mid-size businesses (SMBs) an easier way of providing employee health benefits without the need for traditional group plans.

Our platform provides cost certainty for the employer with a defined contribution benefit design and helps employees monetize healthy habits and stretch benefit dollars through tax savings.

Simplicity is what drives the HealthJibe Platform

Employer

1. Set your budget
2. Direct employees to the HealthJibe app
3. Go back to running your business

Employee

1. Install HealthJibe on your mobile device
2. Snap a picture
3. Get tax-free cash in your bank account

We do everything else:

- Plan design and customized plan documents
- Reimbursement processing
- Reimbursement reporting
- Compliance monitoring
- Online employee support

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Health engagement is what sets HealthJibe apart

HealthJibe combines employer reimbursement of health premiums with a health engagement component that encourages activities that are proven to stabilize health care costs including:

- A focus on completing important preventive screenings and exams
- Awareness and understanding of emerging or prospective health risks
- Monitoring of lifestyle habits like activity, sleep, weight, and blood pressure that contribute to lifestyle diseases such as obesity, diabetes, heart disease and more.

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