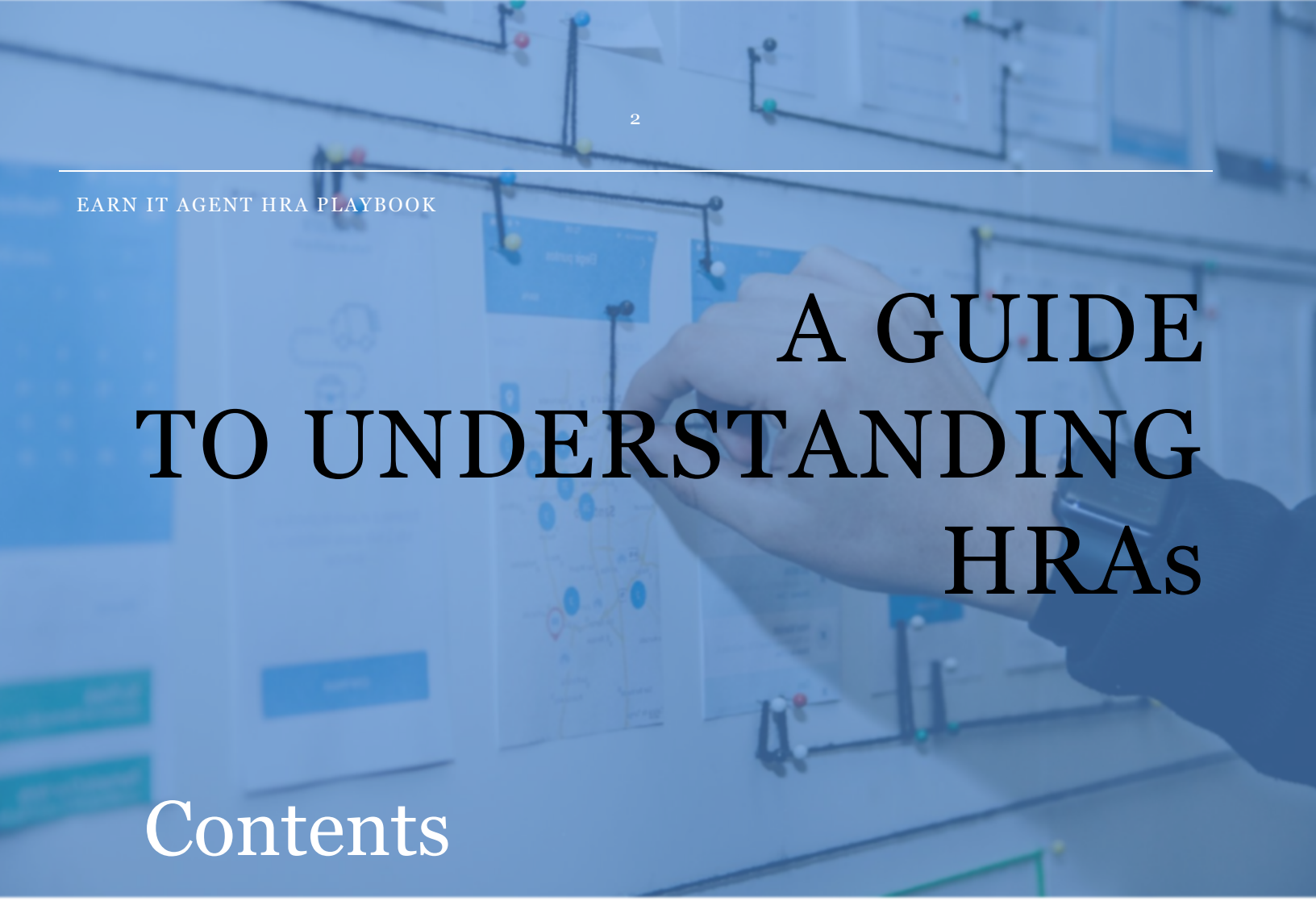


The HRA Playbook *for Small Business Owners*

Learn the ins and outs of HRAs in this helpful e guide, and determine whether offering an HRA is right for your business.

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A GUIDE TO UNDERSTANDING HRAs

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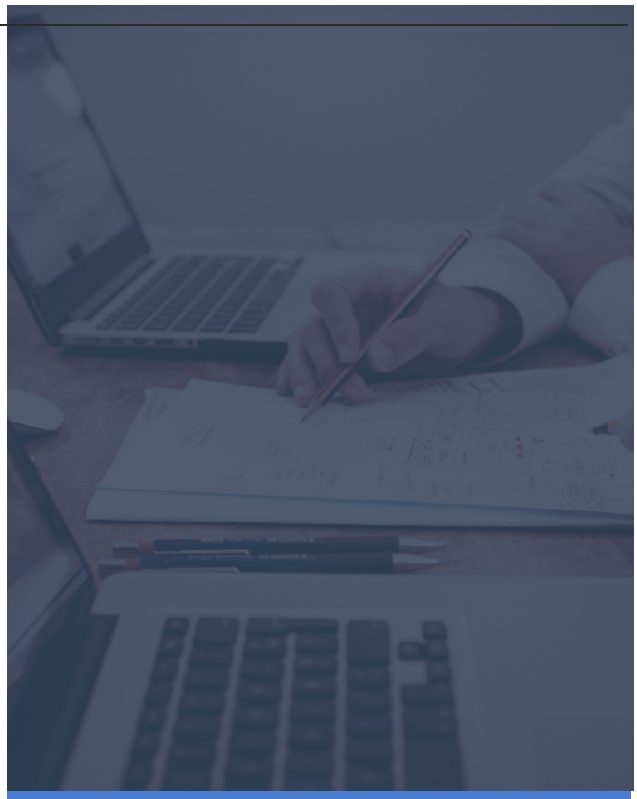
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Are you...

Are you considering offering health insurance for the first time to your employees? Or maybe you already offer insurance, but it's gotten too expensive and you're looking for a different option?

Whatever your situation may be, if you are wanting to learn more about HRAs and how you can offer one in your business, this is the playbook for you. Our intent is to provide you with the information you need in order to make an informed decision about HRAs.



Health Benefits

50%

Almost 50% of small businesses with under 9 employees offer some sort of health insurance benefits to their employees.

Health Benefits

71%

Approximately 71% of businesses with between 10-24 employees offer some sort of health insurance benefits.

1. What even is an HRA?



Health Reimbursement Arrangements, more commonly referred to as HRAs, are tax-advantaged employer funded accounts that are used to reimburse qualified employee medical expenses. Tax-advantaged means that employees are not taxed on the amounts they withdraw, as well as that the amounts are 100% tax deductible for the employer.

Since HRAs are fully employer funded, they are also employer owned. This means the HRA account stays with the employer, not the employee, even if the employee changes jobs. This can help with retention, because employees may be less likely to move if they know they will also be losing any money in their HRA account. On the flip side, as an employer you are 100% responsible for funding the account and ensuring your employees get reimbursed correctly.

HRAs are not considered health insurance. Rather, they are special accounts that employees can draw from to pay for their own health insurance, or for other qualified medical expenses. From the employee perspective, the advantage is this allows them to choose whatever type of health insurance they desire, instead of being limited to only the specific employer offered plans.



On the business owner side, there are a few potential benefits to choosing to offer an HRA as well. HRAs are typically cheaper than offering a traditional group health insurance plan. Also, the business can choose the amount they wish to contribute each month for each employee, which can help control costs. Another major benefit of HRAs is that they are fully tax deductible, which may lead to a decrease of your tax burden.

However, offering an HRA is not all sunshine and rainbows. There are some potential negative impacts that you should be aware of before deciding to offer an HRA or not. We will discuss this in more detail later on.

2. How do HRAs actually work?

As mentioned above, HRAs are fully employer funded. Employees are not allowed to contribute to an HRA. As the employer, you first need to decide which type of HRA you would like to offer. You may elect to offer one of the following:

- QSEHRA (Qualified Small Employer HRA)
- ICHRA (Individual Coverage HRA)
- Group Coverage HRA
- Dental/vision HRA
- Retiree HRA

We will discuss the differences in each plan in the next section, but first let's examine how they are all similar. Regardless of which HRA plan you choose you will most likely need to follow these five simple steps:

1. *Decide on the monthly/yearly allowance. The QSEHRA has contribution limits, but the other options do not. You need to determine what your budget will permit you to contribute towards your employee's medical reimbursement account.*
2. *Employees make expenses. Remember, an HRA is a reimbursement arrangement; meaning the employee must make the qualified purchase first, and then get reimbursed for it, up to the allowance.*
3. *Employees submit proof of purchase. Employees must submit proof of how much they spent, and on what, before they are able to be reimbursed.*
4. *Review the reimbursement request. On the business side, you must verify that the employee's submitted expense qualifies for reimbursements.*
5. *Reimburse the employee. The final step is crucial for employee satisfaction – pay them back! Once you have verified that the expense qualifies, ensure the employee gets reimbursed the correct amount quickly.*

3. Types of HRAs

QSEHRA:

The qualified small employer HRA was created in 2016 and is only for small employers with under 50 full-time equivalent employees. Full-time equivalent (FTE) employees are calculated based on total hours worked a week, so multiple part-time employees may count as one full-time employee. To calculate how many FTE employees your business has, use this simple equation:

FTE = ([number of part-time employees x average hours worked per week] / 30) + # of full-time employees

An interesting aspect of the QSEHRA is that it has contribution limits, based on whether the employee is an individual or a family. See the chart on the next page for the monthly and yearly contribution limits.

QSEHRA Allowance Amounts

Frequency	2019	2020
Self-only (mo)	$429.17	$437.50
Self-only (yr)	$5,150	$5,250
Family (mo)	$870.83	$883.33
Family (yr)	$10,450	$10,600

QSEHRAs are automatically available to all full-time employees, and employers may choose whether part-time employees are also eligible. An important note is that if you decide to include part-time employees, they must receive the same allowance as your full-time employees. Also, if you decide to offer the HRA to one part-time employee, you must also offer it to all part-time employees.

Other employees that you may exclude from the QSEHRA are:

- Employees under age 25 before the beginning of the plan year.
- Seasonal employees.
- Employees who have not completed 90 days of service with the employer.
- Employees who are nonresident aliens with no earned income from sources within the United States.

If you decide to offer a QSEHRA, you may not discriminate between which employees get what amount. Apart from the exclusions listed above, the only factors you may use to determine reimbursement amounts are:

- Age of the employee.
- Size of the employee's family.

The funds in a QSEHRA can be rolled over month to month, and from one year to the next, as long as the contribution limit is not exceeded by the rollover.

ICHRA:

The individual coverage HRA is very similar to the QSEHRA, just with different limitations. To qualify, the employee must be enrolled in an individual health plan and cannot be covered by a family members plan.

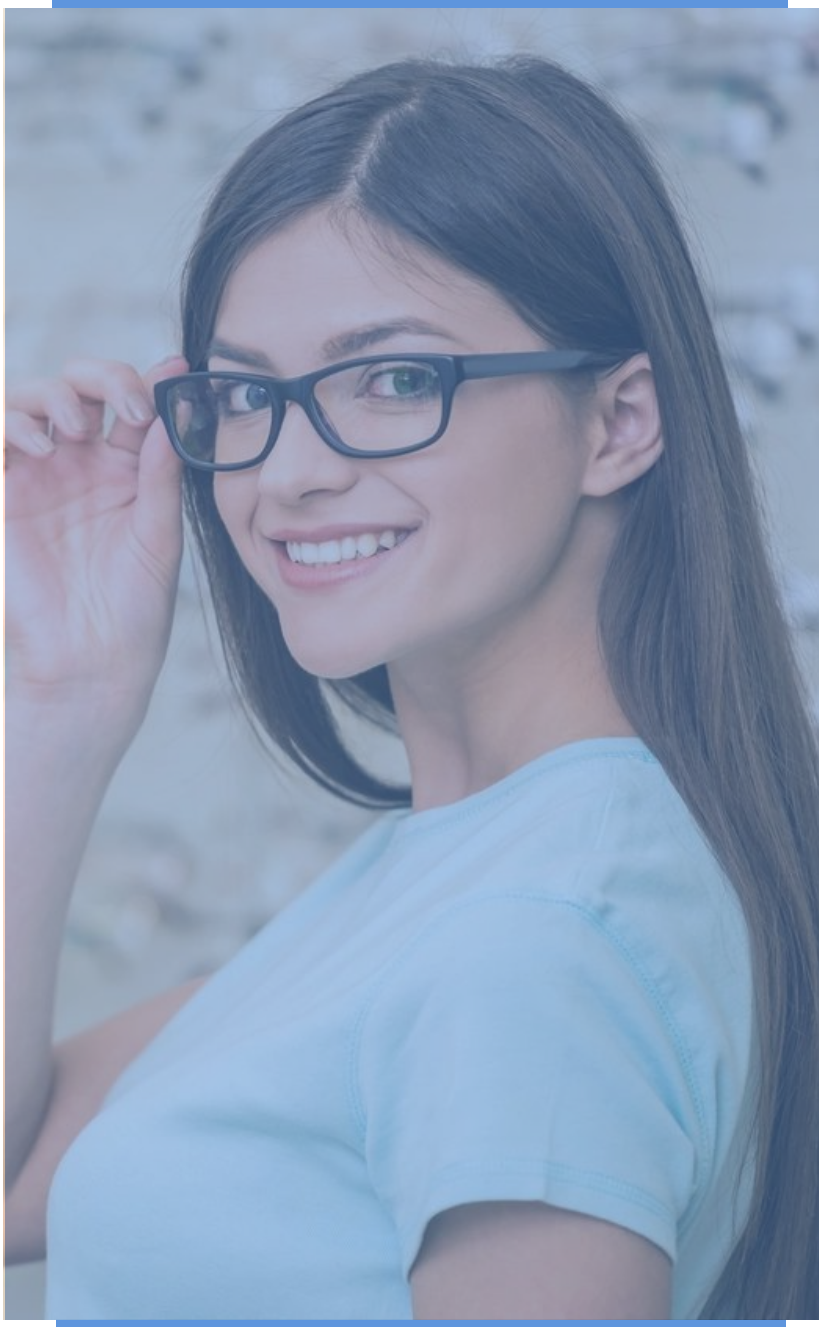
ICHRA are available to businesses of any size (no 50 employee limit) and do not have contribution limits. An employer can vary the allowance they give based on employee classes; but employees within the same class must be offered an equal allowance.

GCHRA:

Group coverage HRAs are exclusive to businesses who also offer a group health insurance plan. Similar to the ICHRA, any size company may offer a group coverage HRA and there are no contribution limits. Also, the employer can vary their contribution amounts based on determined employee classes.

Dental/Vision HRA:

A dental or vision HRA is an HRA that can only be used to reimburse dental or vision expenses, respectively. This is a good option to be able to provide dental and/or vision insurance to your employees, if these benefits are not already covered by a separate plan.



Retiree HRA:

As the name implies, the retiree HRA is specifically for retired employees. It follows the same rules as the other HRAs, with no contribution limits or other insurance requirements.

4. What counts as a qualified expense?

A frequent question employee's will ask their employer is, "what can I get reimbursed for?" Here's a list of some of the most common qualifying medical expenses:

- Individual health insurance premiums
- Individual dental or vision insurance premiums
- Copays
- Payments toward the insurance deductible
- Prescription drugs
- Physical therapy and chiropractor visits

For a complete list of qualifying medical expenses, see: IRS publication 502.

In addition, a business may choose to eliminate specific items from eligibility. This is another way to help control costs.

5. How to set up an HRA

Setting up an HRA is a fairly straight forward process. We will break it down into 7 easy steps you can follow. However, despite the simplicity of these steps, we highly recommend that you confer with a professional before finalizing any health insurance decisions.

Step 1: Make sure you qualify.

For example, if you decide you want to offer an QSEHRA, first you must ensure you have less than 50 FTE employees. You may also need the HRA to be the only form of health coverage offered.

Step 2: Decide who is eligible.

Depending on which plan you have decided on, certain employees will or will not be eligible. For example, if you're offering a QSEHRA, then all full-time employees are automatically eligible and part-time employees can be made eligible upon your discretion. Remember, if you decide to offer the HRA to one person in a certain group (such as a part-time employee), than you must offer it to every person in that group (as in every part-time employee).

Step 3. Determine how much you will reimburse.

As you are deciding how much to contribute, remember that there is no minimum contribution limit. For the QSEHRA only there are maximum contribution limits (refer to the chart above), but for the other HRA types there are not.

For this step it is crucial that you chose amounts that are in line with your companies' budget. Be sure to take into account any new hires you plan on adding to your team during the year, since you will be required to offer them the same amount as your current employees.

Step. 4 Determine which expenses will be reimbursable.

You can choose to reimburse all qualified medical expenses (see by IRS publication 502), or you can narrow the types of expenses that qualify. One option is to only reimburse insurance plan premiums, up to your established limit. An advantage to this approach is that your monthly costs will be predictable since employees won't commonly change insurance plans during the year. A disadvantage is that your employees may be disappointed with the amounts they will still pay out of pocket, depending on their health insurance plan.

Step 5. Determine when to start.

Now this step may sound pretty straight forward but be sure to give yourself enough time to complete all the tasks before you plan on launching the plan. Also, if you are already offering a group plan, you will have to wait until the plan terminates before you can begin a QSEHRA.

Step 6. Create the legal documents.

Once you have completed steps 1-6, you can begin creating the necessary legal documents to solidify your plan. These legal documents should outline how the HRA will be funded, how reimbursements will be paid, who qualifies and for what amounts, as well as some other information. We recommend working with a third-party for this step, to ensure the documents are complete. You will be required to send these documents to the IRS.

Step 7. Inform your employees.

Now that you have everything set up for your HRA, let your employees know about the new company health coverage plan. You'll want to use the documents you created in the above step to send official written notice to your employees. Make sure to send this at the start of the HRA plan year.

These 7 steps will help you set up an HRA for your business. If you have any specific questions and would like to speak to someone, don't hesitate to reach out to us directly at EarnItAgent.com, or email us at quote@earnitagent.com.

6. Pros and cons of offering an HRA.

HRAs are a popular choice among small business who want to offer health benefits, and in many cases, they are the best option. However, there are some specific things to be aware of before finalizing your decision on whether to offer an HRA or not. See the chart below for a list of some of the pros and cons to offering an HRA.

Pros	Cons
Funds used towards an HRA are 100% tax deductible to the employer, and withdrawn funds are 100% tax free for the employee.	Funds are not transportable - meaning they stay with the employer, not the employee.
As the employer and provider of an HRA, you can determine exactly how much you wish to contribute each year (within specified IRA limits, when applicable).	Depending on the size of your business, the administration fees to a third-party company to help set up and run your HRA may be more expensive than the other health insurance options you can offer.
Employees can choose their own health providers and health insurance plan.	If the individual health insurance options in your area are weak, employees may be disappointed in their health insurance choices.
Depending on the way the HRA is set up, employees may use their funds to pay for both insurance premiums and other qualified medical expenses.	Depending on how much the HRA contributes and the specific plan of your employee, they may become ineligible for government subsidies that would save them more each month than they get from the HRA.
Businesses of any size can use an HRA, with some exceptions (businesses are eligible for a QSEHRA only if they have below 50 FTE employees).	Self-employed business owners, partners in partnerships, members of LLC's and 2% shareholders of S-Corps are not eligible to participate in HRAs.

This is not a comprehensive list of all the pros and cons of offering an HRA. We recommend creating your own pros and cons list based on your company, that way you can clearly see the advantages and disadvantages an HRA will have on your business.

Before deciding to offer an HRA, be sure to take some time to see what affect it will have on your employees. Depending on their income level, your employees may be eligible to receive a government subsidy for individual health insurance. However, if they are being offered an HRA they may become ineligible to claim a subsidy. This could result in you actually wasting money with your HRA contributions.

EXAMPLE

Let's look at an example to illustrate when this could happen. We worked with a client - we'll call her Jill - who was eligible to receive a $300 monthly subsidy to help pay for health insurance. Her employer provided a QSEHRA which reimbursed up to $300 a month. Because of the QSEHRA, Jill was no longer eligible to receive the $300 government subsidy. In essence, the $300 reimbursement rate did nothing for Jill because she was already receiving that amount from her subsidy; on the flip side, her employer is now spending $3,600 a year for something that essentially provides no benefit.

Now, this is just one example. In circumstances where the employee is not eligible for a government subsidy, then the HRA may be a big benefit. We encourage you to take the time to look at your specific situation and whether offering an HRA is actually in your employees' best interest.

7. What next?

Now that you know what an HRA is, how they work, and how to set one up, what's next? We recommend taking some time to map out with real numbers what it would look like for your business to offer an HRA. This will give you a good idea of the impact it will have financially on your company. Once you have an idea of the cost, compare that amount to the expected benefit your business will get as a result from offering an HRA. The expected benefit is more relative per business, so take some time to really think it through.

For example, though your bottom-line yearly costs may increase by offering an HRA, your employee retention rate may also rise, leading to savings on new employee acquisition and training costs. Also, make sure to compare offering an HRA against offering other forms of health benefits. On the flip side, offering an HRA may save you money compared to another health plan, but if your employees are dissatisfied with the coverage it may not be worth the savings.



We know choosing what health insurance option to offer your employees can be a difficult and complicated process. We hope this playbook has helped inform you more on HRAs and whether offering an HRA would be a smart choice for your business.

However, we know we could not answer all your questions in one small book. As such, we are offering a free 1-hour consultation to go over any additional questions you have with regards to your specific situation.

To schedule your free consultation, visit our website www.earnitagent.com to book an appointment, or email us at quote@earnitagent.com.