Two New HRAs Available January 2020

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A Federal ruling results in two new Heath Reimbursement Accounts (HRA) on a pre-tax basis, available January 1, 2020. This employer-funded health benefit plan is to be integrated with other account-based group health plans with individual health insurance coverage or Medicare. The new rule is an attempt to increase the function and flexibility of the HRA plans for all businesses. The ultimate goal being to provide more Americans with additional options for affordable healthcare.

The HRA

The HRA in general, is funded solely by employer contributions without salary reduction contributions or any other contributions by the employees. The employees may then use the account to reimburse certain medical expenses the employee and/or their dependents may incur. The reimbursements are also excludable from the employee's federal income tax.

Background

In 2013, the IRS issued guidance on the Affordable Care Act (ACA). They stated that when the HRA was used in tandem with group insurance it satisfied the ACA provisions, yet HRAs and individual insurance do not.

By 2016, Congress created the Qualified Small Employer HRA (QSEHRA) to help businesses with under 50 employees. At this point, there was still a gap in the functionality of the HRA.

In 2017, President Trump issued Executive Order 13813,1 "Promoting Healthcare Choice and Competition Across the United States," with the intention of prioritizing improvement of association health plans, short-term limited-duration insurance, and health reimbursement arrangements.

The Executive Order directed the Secretaries of the Treasury, Labor, and HHS to, "consider proposing regulations or revising guidance, to the extent permitted by law and supported by sound policy, to increase the usability of HRAs, to expand employers' ability to offer HRAs to their employees, and to allow HRAs to be used in conjunction with non-group coverage."

The intent is to allow workers the flexibility to shop for insurance in the individual market for coverage that best fits their current need, thus spurring a more competitive market that drives insurers to deliver more extensive coverage options.

A proposal was released in 2018 undoing the IRS ruling and delivering two new HRAs. This was subjected to 90 days of publicly issued commentary and suggestions. In June of 2019, the final ruling was released and set to be effective January 2020.

The Two New HRAs

1. Individual Market HRA

This is also being referred to as the Individual Coverage HRA or ICHRA. The ICHRA allows employers to fund HRAs for their employees who may use the funds to reimburse premiums for qualified individual health insurance benefits.

2. Excepted Benefits HRA

The Excepted Benefits HRA (EBHRA) lets employers place a limited fund allowance in an HRA account as an excepted benefit used to reimburse qualified medical expenses. These expenses include premiums for stand-alone dental and vision plans for example. Other qualified expenses incorporate indemnity plans, short-term plans or COBRA premiums.

Employers who offer traditional group health plans can provide this excepted benefit of up to $1,800 per year (indexed to inflation) even if the employee doesn't enroll in the group plan.

Additional Commentary

Moreover, the new rule grants a special enrollment period (SEP) to newly eligible employees. This is especially beneficial for employees to enroll in individual health insurance outside the official enrollment period.

The final rule also clarifies Medicare Parts A, B, C, or D as well as Medigap qualify as individual health insurance coverage and employees enrolled in the above plans may participate in the ICHRA.

With the promise of another better way to provide health insurance coverage, a wait-and-see approach seems to be in order. With individual premiums generally higher than group, the individual market is often less desirable. Additionally, without a simple way to implement the new rule around the highly complex rules governing the product, it's important to hear how employers expect to use these plans.