

Health Reimbursement Arrangements (HRAs)

A health reimbursement arrangement (HRA) is a program set up by an employer to reimburse employees for qualified medical expenses. HRAs can be beneficial for both employers and employees; employers can claim a tax deduction for reimbursement arrangements and employees can get tax-free assistance with health insurance premiums and medical expenses.

For many years, it has been common for employers to set up HRAs for their employees to support out-of-pocket medical expenses. In 2017, however, small employers with less than 50 employees could offer a new tax-free HRA through a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA), enabling employers to include health insurance premium contributions as HRA-qualified expenses. Then, in January 2020, HRAs became even more flexible, by allowing employers of all sizes to offer tax-free HRAs to their employees to assist with health insurance premium payments; this is called an Individual Coverage Health Reimbursement Arrangement (ICHRA).

ICHRA & QSEHRA

Though QSEHRAs and ICHRAs are two different types of HRAs, they have many similarities.

Employer AND Employee Benefits

- **Employers benefit** through tax deductions for healthcare and insurance payment contributions. In addition to the expanded tax deductions that make ICHRAs and QSEHRAs appealing, employers prevent the exposure of highly variable increase of health insurance premiums each year. HRAs now turn these costs into predictable and controllable expenses. Employers can now determine how much they will contribute for healthcare benefits. Once known, employees can determine their health insurance needs.
- **Employees benefit** by receiving employer-sponsored healthcare premium contributions, while also having the opportunity to choose from a variety of health insurance options that best meet their needs. Employees can choose their own plan based on features most important to them, such as a network with their current doctors, lowest premium, or richest benefit coverage.

Plan Administration

To meet ERISA and IRS guidelines, employers offering an HRA to their employees will want to consider using an administrator to assist them. Administrators may handle tax considerations, employee payment details, and the HRAs general program design. At CGHC, we are happy to refer employers to reputable administrators and assist with other details about enrollment, payments, and our plan design options for employees!

Reimbursement rules

Reimbursement rules are detailed. In general, for both ICHRAs and QSEHRAs, employers can offer funds to employees for qualified medical and dental expenses in addition to contributions towards their health insurance premiums. Qualified medical expenses are costs towards preventing or treating physical or mental ailment, but not for maintaining general health.

Did you know? *The Department of Health and Human Services projects that roughly 800,000 employers will offer ICHRAs to pay for insurance for more than 11 million employees within the next 5-10 years!*

