SFP BENEFITS

Health Reimbursement Arrangement (HRA)

Business Owners – Looking for relief from increasing employee group health insurance premiums? It may be time to consider a Health Reimbursement Arrangement (HRA)

Each year the cost of your group health insurance plan increases and it seems there's no end in sight. According to the Kaiser Family Foundation's "2019 Employer Health Benefits" annual survey, the average cost for group health insurance coverage increased 22% over the last 5 years and a whopping 54% over the last 10 years.

If you are like most business owners, you have felt the crunch of these increases and each year you've been forced to make tough choices: have your business absorb the increase, pass the increase along to your employees, reduce your health plan benefits, change health insurance carrier altogether, or "all of the above."

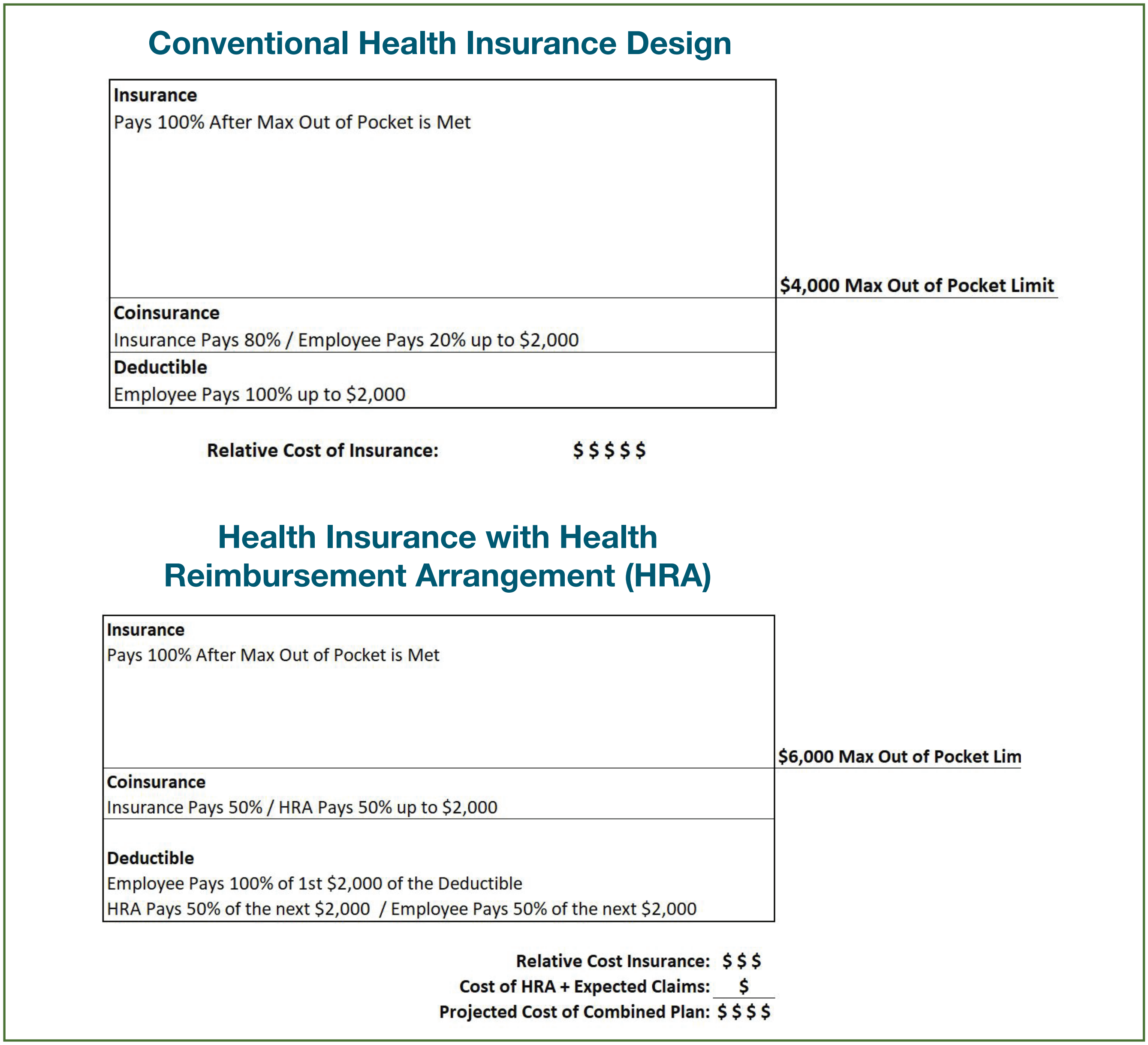
Here's an idea that may allow you to keep your current insurance carrier and reduce your premiums while at the same time retaining a similar level of benefit coverage for your employees: adopt a Health Reimbursement Arrangement (HRA) as a companion benefit to your group health insurance plan.

An HRA is a tax-favored, employer-sponsored arrangement that would allow you to reimburse your employees for eligible healthcare expenses. An HRA may be set up, based on your preference, to either require that your employees incur a pre-determined amount of healthcare expense before the HRA funds are made available, or you may set up the HRA to reimburse on "first dollar" basis. You decide the threshold, limit and which healthcare expenses to make eligible for reimbursement under the HRA (i.e. healthcare, prescription drugs, dental and vision, etc.).

Illustrated in the design concept below (see Figure 1), the HRA would be set up to reimburse your employees only for healthcare expenses that are specifically covered under your group health plan. HRA reimbursement would only be made after your employee has exceeded a pre-determined amount of covered healthcare expenses. Employees who waive participation in your health plan would not be eligible for the HRA.

The idea is this, reduce premiums on your health insurance plan (often as much as 15 to 25% or more) by raising your plan deductible and/or out of pocket limit. At the same time, establish an HRA

Figure 1



that allows your business to reimburse employees for a portion of the increased deductible/out of pocket responsibility your health insurance plan.

You would reimburse participating employees for qualified healthcare expenses through a Third Party Administrator (TPA). Employees must provide the TPA with an Explanation of Benefits (EOB) from your health insurance carrier in order to satisfy IRS reimbursement substantiation rules. TPAs generally bill on a weekly, “pay-as-you-go” basis as your employees’ claims are incurred and substantiated – also, the TPA keeps track of the required thresholds and reimbursement limits. HRAs generally do not require you to pre-fund. Reimbursements and nominal HRA administrative expenses for the TPA service are generally tax deductible to you and non-taxable to your employee.

There is also nominal Affordable Care Act (ACA) fee assessed on HRAs of $2.54 per participant per year (2020) that must be paid on your business 2nd Quarter Quarterly Federal Excise Tax Return (Form 720) by July 31st of each year.

A great advantage of a properly designed Health Reimbursement Arrangement (HRA) as a companion to your health insurance is that the while your employee feels protected by the full-predetermined HRA allocation you set up to reimburse them for eligible healthcare expenses, you do not actually incur claim expense until the employee incurs covered qualifying healthcare expense; even then, your “at risk” expense amount is capped at a pre-determined annual limit determined by you beforehand on a per enrolled employee basis.

Talk to your SFP Advisor if you’d like to hear more about this or other cost-saving employee benefit strategies.