



A Healthcare Option Returns: Qualified Small Employer HRA

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

Prior to the enactment of the Affordable Care Act (ACA), many small and mid-sized businesses used Health Reimbursement Arrangements (HRAs) to reimburse their employees for the cost of individual and family insurance policies they bought. This was a cost-effective way for many firms to help their employees pay for healthcare costs without having to provide group health coverage.

But the ACA effectively eliminated this practice by threatening to hit businesses with annual fines of up to \$100 per day, per employee — or \$36,500 per employee, per year — if their HRAs didn't comply with rules dictating that group health plans provide certain levels of benefits. Unfortunately, this killed a very popular and effective strategy that many small and mid-sized firms had used to provide health benefits to employees in a cost-effective way.

Good News: HRAs are Back

In one of his final acts as President, Barack Obama signed legislation — the 21st Century Cures Act — in December that reauthorized the use of HRAs for companies that have less than 50 employees. Effective last month, these businesses are no longer subject to massive penalties for reimbursing employees for individual and family policies they buy that don't conform to ACA rules.

This is very good news for small and mid-sized firms that want to offer healthcare benefits to their employees but can't afford to provide expensive group health coverage. In a recent Wall Street Journal article¹, a benefits expert said that HRAs are once again a viable healthcare option for small and mid-sized firms — even with the uncertainty now surrounding the ACA in the wake of the election of President Trump.

“We know they work now, and they probably will work during the transition years if the ACA is repealed,” said the benefits expert in the article. In addition, these new HRAs could be incorporated into an eventual ACA replacement, the article noted.

Qualification Requirements

The legislation incorporates the Small Business Healthcare Relief Act to create what are referred to as Qualified Small Employer Health Reimbursement Arrangements, or QSEHRAs. To qualify under the legislation, a QSEHRA must meet certain requirements, including the following:

- The business must not be an “applicable large employer” per the ACA — in other words, it must have less than 50 full-time employees.
- The business may not provide a separate group health insurance plan to any employees.
- The business can't arbitrarily provide a higher HRA benefit to some employees than others, although benefits can be varied based on the cost of insurance policies bought by employees.
- The HRA must be offered to all employees who are eligible if it's offered to more than one employee.

- The employer must fund the HRA without making salary-reduction contributions.
- The HRA must reimburse or pay for healthcare expenses, including health insurance premiums and out-of-pocket healthcare costs.
- The annual HRA contribution limit is \$4,950 for single employees and \$10,000 for employees with families, to be adjusted annually for inflation.

From a tax standpoint, your business can deduct HRA contribution amounts and you won't be liable for payroll taxes on them. Contributions are not taxable to employees if they have health insurance. Employees can use tax-free HRA funds to pay for health insurance premiums as well as copays and uncovered healthcare expenses. However, if an employee doesn't have health insurance, then HRA payments for health expenses are taxable to them.

If you decide to offer QSEHRAs to your employees, you will have to provide eligible employees with certain notices at least 90 days before the beginning of a new plan year. You must also report the value of QSEHRA benefits on your employees' W-2 forms, beginning with forms issued next January for 2017.

Concluding Thoughts

In one of his final acts as President, Barack Obama signed legislation that reauthorized the use of HRAs for many businesses. This is very good news for small and mid-sized firms that want to offer healthcare benefits to their employees but can't afford to provide expensive group health coverage. As a result, HRAs are now once again a viable healthcare option for many small and mid-sized firms — even with the uncertainty now surrounding the ACA in the wake of the election of President Trump. An outsourced CFO services provider can help you weigh the pros and cons of offering HRAs to your employees.

*1 Some Rare Good News for Small Businesses Paying Employee Health Costs; Laura Saunders; Wall Street Journal; January 27, 2017
<https://www.wsj.com/articles/tax-report-some-rare-good-news-for-small-businesses-paying-employee-health-costs-1485527402>*

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