

Group insurance is not required for a Small Business HRA

A Small Business HRA (QSEHRA) enables employers with fewer than 50 employees to once again reimburse individual insurance premiums and out-of-pocket medical expenses.



The Cures Act Brings Tax Relief to Small Business Owners

Beginning January 1, 2017, qualified businesses that establish Health Reimbursement Arrangements (HRAs) will be able to use tax-advantaged funds to reimburse employees for individual health insurance premiums and family out-of-pocket medical expenses. (Note: This change does not affect One-Employee, Integrated, or Limited Purpose HRA Plans that are already compliant with federal law.)

The Cures Act and H.R. 34 containing provisions that establish Small Business HRAs (QSEHRA) was signed into law in December 2016. QSEHRAs provide a tremendous opportunity for small employers (that have more than one but fewer than 50 eligible employees) who do not offer Group insurance but want to help their employees offset ever-rising healthcare costs.

Requirements

- Employees must have minimum essential coverage to participate.
- HRAs are solely funded by an eligible employer; the employee is not allowed to contribute pre-tax dollars via salary reduction.
- The employer determines whether they will allow unused elected amounts to be carried over to reimburse medical expenses in future years OR select the “use it or lose it” feature to limit their liability to the current Plan Year.
- HRAs are not pre-funded.
- Participation in this HRA will not disqualify participants from Marketplace subsidies (i.e. premium tax credits), but monthly HRA reimbursements will be included in income calculations for determining eligibility for any subsidy.
- Generally, employers must make the same contributions to all eligible employees; amounts may vary based on family status (single vs. family).
- Employers can write off insurance premiums beginning the first of the year in which they enroll. Out-of-pocket medical expenses can be written off beginning the first of the month in which the small business owner establishes the HRA.
- Employer annual contributions are capped at \$4,950 for a single employee and \$10,000 for an employee with a family. These numbers will be indexed annually for inflation.

Note: A fully-administered FlexSystem Flexible Spending Account (FSA) may be a better choice for employers with multiple employees who sponsor Group insurance.

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