

Benefits Insights

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A Primer on QSEHRAs

Due to rising health care costs, small businesses often struggle to provide employees with affordable, high-quality benefits. In fact, many small businesses choose not to offer employee benefits because of cost constraints. Failing to offer health benefits can place small businesses at a disadvantage when it comes to attracting and retaining key talent compared to their larger counterparts. However, qualified small employer health reimbursement arrangements (QSEHRAs) offer small businesses the opportunity to provide employees with affordable, quality care.

A QSEHRA is a health reimbursement arrangement (HRA) that allows a small business to provide employees tax-free reimbursements for health insurance premiums and other qualifying health care expenses. Compared to traditional group health plans, QSEHRAs can offer small businesses more flexibility and affordability when administering health care benefits while tailoring benefits offerings to fit employee needs.

This article provides a general overview of QSEHRAs and outlines some considerations for employers to keep in mind when deciding whether to offer employees this coverage.

What Is a QSEHRA?

A QSEHRA is a health reimbursement arrangement for employers with fewer than 50 full-time employees. It allows qualifying small businesses without employer-sponsored group health benefits or any excepted benefits, such as dental and vision, to provide tax-free reimbursements to employees for eligible medical expenses. To qualify for tax-free reimbursements, employees must be enrolled in health plans that meet the minimum essential coverage (MEC) requirements outlined in the Affordable Care Act.

How Do QSEHRAs Work?

An employee with MEC can submit qualified medical expenses and supporting documents to their employer for reimbursement. Qualifying expenses typically include:

- Insurance premiums
- Coinsurance
- Copays
- Deductibles
- Prescription or over-the-counter drugs

The employer then provides tax-free reimbursements to the employee, up to a specified annual maximum amount. The IRS imposes annual maximums per employee, with separate limits for individual and family coverage. If an employee's medical expenses do not reach the annual maximum reimbursement amount during the plan year, the employer may keep the remaining balance or roll it over for the following year. Employees may not receive cash payments for the difference if their expenses fail to reach the annual maximum amount.



QSEHRA Eligibility Requirements

The eligibility requirements for QSEHRAs differ for employers and employees.

Employer Eligibility Requirements

For employers to be eligible to offer a QSEHRA, they must meet the following requirements:

- Employ less than 50 full-time employees
- Not offer a group health plan, excepted benefits or a flexible spending account (FSA)

Employee Eligibility Requirements

Most employees of an eligible employer may qualify to participate in a QSEHRA. Even employees without MEC can still participate in their employer's QSEHRA, but their medical reimbursements will be taxable. Additionally, employees with group health coverage through their spouse can participate in a QSEHRA, but their group health premiums cannot be reimbursed. However, employers can exclude certain categories of employees, including part-time and seasonal employees as well as employees younger than age 25.

Considerations for Offering a QSEHRA

QSEHRAs allow small businesses to offer employees health benefits without having to manage a group health plan. This can help small businesses avoid the potential downsides of traditional health insurance plans, such as expensive premiums, restrictive participation, contribution requirements and annual rate increases.

QSEHRAs can also benefit employers offering health benefits for the first time since these plans allow employers to control costs, provide flexibility and scale their benefits as their organization grows. They are often a good option for organizations with a remote and geographically disbursed workforce because small businesses may be unable to find a national carrier that provides high-quality, affordable health benefits. Additionally, QSEHRAs can offer employees more choice in how they spend their health care dollars than traditional health plans.

Summary

QSEHRAs offer a valuable solution for small businesses seeking to provide health benefits to their employees without incurring the costs typically associated with traditional group

health plans. Leveraging the flexibility and tax advantages of QSEHRAs can help small businesses offer competitive benefits to attract and retain top talent while controlling costs.

Reach out to us today for more information on QSEHRAs.