

SHEPLER & FEAR
GENERAL AGENCY
A Division of



Dickerson
Insurance Services
AN ALERA GROUP COMPANY

Update on HRAs -Spring 2020-

Today's Webinar Co-Sponsor:

- A licensed, bonded **third party administrator** of employee benefit programs including Health Reimbursement Arrangements, Flexible Spending Accounts and COBRA
- Headquartered in Fresno, CA, ASI has operated since **2001** and in 2019 merged with **Navia Benefit Solutions** – employs over **100 employees**
- Has more than **3,000 clients** throughout California and the United States
- Their **HRA service package** includes:
 - *Plan analysis and design*
 - *Plan documentation*
 - *Enrollment and eligibility maintenance*
 - *Traditional and debit card claim processing including required claim documentation*
 - *Periodic claim and plan financial reporting*
 - *Annual government reporting and filing*
- ASI is a “**broker friendly**” administrator, as more than 99% of their business was placed by licensed broker/advisors
 - Broker/Advisor compensation is negotiated on a case-by-case basis and fully disclosed
- ASI **works with every HDHP carrier** who allows an HRA wrap arrangement
- Is a **preferred partner** of Shepler & Fear, a division of Dickerson Insurance Services, an Alera Group Company



HRAs – quick history



Prior to 2006, Internal Revenue Code Sections 105 and 106 allowed for the establishment of a medical expense reimbursement plan (**MERP**) and also Health Reimbursement Arrangements (**HRA**)



In 2006 IRS issued regulations that clarified how HRA's could be established by employers for the benefit of their employees – and be fully **tax deductible**



Following those regulations, employers went a step further and began to include **reimbursement of individual health insurance premiums** based on these and subsequent IRS regulations



Then came the passage of the **Affordable Care Act** in 2009 – and everything changed...

HRAs – quick history

Following passage of the **Affordable Care Act** the IRS issued **new regulations** pertaining to HRA's:

- An HRA could **no longer** reimburse the cost of individual health insurance premiums
- An HRA must be **fully paid by the employer** – no employee contributions would be allowed
- An HRA must be **integrated with a High Deductible Health Plan** (HDHP) which must be **ACA compliant** and provide **minimum value**

In December 2016, legislation passed (the “CURES” act) that allowed for establishment of “**Qualified Small Employer HRA’s**” (**QSEHRA**)

- This does allow **reimbursement of individual health plans** under certain and limited conditions
- Allowed for only to “**small**” employers (not an “*Applicable Large Employer*”)
- Was championed by the small business community as an answer to the HRA challenges imposed by Obama Administration
- In spite of this, few QSEHRAs have been established since 1/1/2017

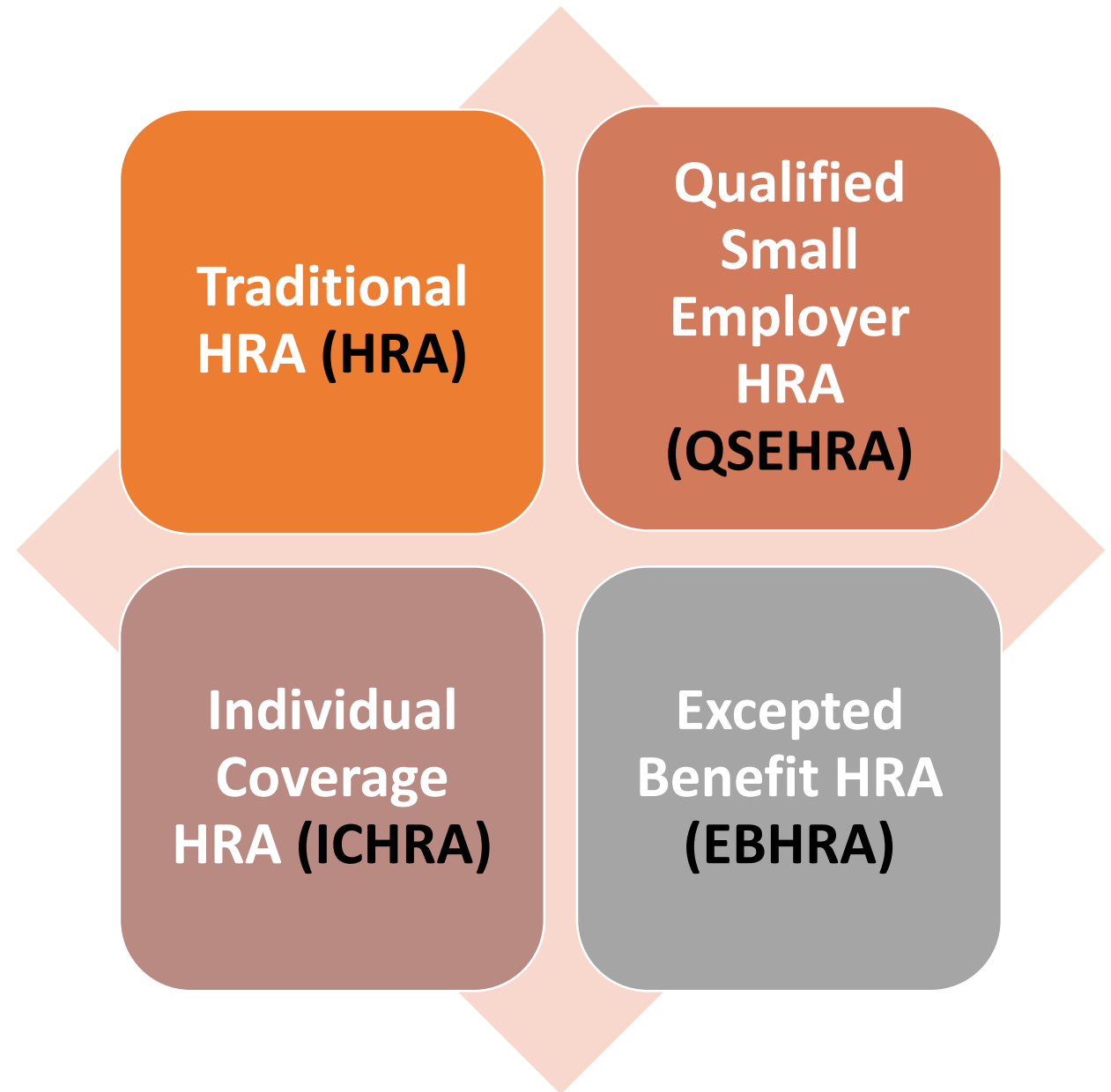
HRAs – recent events

In 2019, the Trump Administration issued new regulations pertaining to HRAs, which created two *new types of HRAs*:

“Excepted Benefit HRAs” (EBHRA) to reimburse certain out of pocket medical costs and premiums for certain other benefits (i.e. Dental, Vision, COBRA, LTC, etc.)

“Individual Coverage HRAs” (ICHRA) which can be established to reimburse the premiums for an individual health insurance plan under specified situations

So, as of
1/1/2020
there will now
be **four (4)**
types of HRA
plans
available:



HRA Plan Type Comparison – Page 1 of 2

Consideration	HRA	QSEHRA	ICHRA	EBHRA
Employer Size	Any Size	Employers who are NOT an “Applicable Large Employer” (ALE)	Any Size	Any Size
Health Plan Requirement	Must offer a group health plan (GHP)	Cannot offer a GHP to any employees	Cannot offer a GHP to same employee <u>class</u>	Must offer a GHP
Contribution Limits	Employer defined	IRS Limited (\$5,150/\$10,450 year-indexed)	Employer defined	IRS Limited (\$1,800 plan year-indexed)
Eligible Expenses	Employer defined (within IRS guidelines); Cannot include premiums for individual health plans (IHP)	Employer defined (within IRS guidelines); Can include premiums for IHP	Employer defined (within IRS guidelines); Can include premiums for IHP and Medicare	Employer defined (within IRS guidelines); Can include premiums for Vision, Dental, COBRA, LTC but cannot be used to pay for GHP, IHP, or Medicare Parts B or D
Eligible Employees	Employee must be covered by the GHP to be eligible; All employees must be treated the same; Special rules may apply for age and family size	All employees are eligible, whether or not they have IHP coverage	Employees must be covered by an IHP (or Medicare) to be eligible; Employees may be split into different classes but employees in same <u>class</u> must be treated the same ; Special rules may apply for age and family size	Employees do not have to enroll in the GHP to be eligible

HRA Plan Type Comparison – Page 2 of 2

Consideration	HRA	QSEHRA	ICHRA	EBHRA
Definition of Employee Classes	<p>Salaried vs Hourly Full-Time vs Part-Time Seasonal vs Temporary Collectively Bargained Active vs Retired</p>	<p>Excludable Categories: Not completed 90 days of service Under age 25 Part-Time Seasonal Collectively Bargained Non-Resident Aliens</p>	<p>Salaried vs Hourly Full-Time vs Part-Time Seasonal vs Temporary Collectively Bargained Not Satisfied Waiting Period Geographic Rating Area</p>	<p>Full-Time vs Part-Time Geographic Location Collective Bargaining Unit Date of Hire Current vs Former Employee Occupation</p>
Claim Substantiation Requirements	<p>213(d) medical expense substantiation required per IRS regulations</p>	<p>213(d) medical expense substantiation required per IRS regulations; Employee attestation allowed for “MEC substantiation”, with initial proof provided at least annually</p>	<p>213(d) medical expense substantiation required per IRS regulations; IHP substantiated annually and for each reimbursement; Employee attestation accepted</p>	<p>213(d) medical expense substantiation required per IRS regulations; IHP substantiated annually and for each reimbursement; Employee attestation accepted</p>
Tax Savings	<p>Reimbursements are free from payroll and income tax</p>	<p>Reimbursements are free from payroll and income tax; Only employees with Minimum Essential Coverage (MEC) can receive reimbursements free of income tax; Employees without MEC must report all QSEHRA reimbursements as taxable income</p>	<p>Reimbursements are free from payroll and income tax</p>	<p>Reimbursements are free from payroll and income tax</p>
Cafeteria Plan Issues	<p>None – normal rules apply</p>	<p>Not Available</p>	<p>IFP premium amounts in excess of what is reimbursed may be paid pre-tax through Section 125 salary reduction if IFP is purchased off exchange; Because ICHRA is considered a group health plan, a Health FSA may be offered alongside of an ICHRA</p>	<p>IFP premium amounts in excess of what is reimbursed may be paid pre-tax through Section 125 salary reduction; A health FSA may be offered alongside of an EBHRA since a traditional group health plan is offered to EBHRA enrollees</p>

ICHRA vs Traditional HRA – Employer Choices



- **Drop group health plan** and implement an ICHRA to stabilize costs:
- **Pro:**
 - Fixes costs, simplifies decisions, eliminates participation rules
- **Con:**
 - Employees are limited to individual market products (narrow networks, age rated) which may be unstable in many states
- Keep group health plan and offer ICHRA to **non-full-time employees**

- **Continues group health plan** but implement an HDHP/HRA arrangement to reduce costs
- **Pro:**
 - Keeps employees in group market with group pricing, wider network products
- **Con:**
 - Establishes and maintains an ERISA plan with related rules and regulations; Must follow state and federal participation, contribution and non-discrimination rules

HRA vs Traditional – The Numbers

Employer with 35 employees & 16 dependent units in Los Angeles, CA	Traditional Fully Insured Plan	HDHP/HRA Plan (<u>Maximum</u> Claims WITHOUT Employer Excess Loss Supplemental Coverage)	HDHP/HRA Plan (<u>Maximum</u> Claims WITH Employer Excess Loss Supplemental Coverage)	HDHP/HRA Plan (<u>Projected</u> Claims WITH Employer Excess Loss Supplemental Coverage)	HDHP/HRA Plan (<u>Projected</u> Claims WITHOUT Employer Excess Loss Supplemental Coverage)
Fully Insured Benefit Plan Features:	<u>Platinum/Gold Benefit</u> \$500 deductible / 80% coinsurance / \$4,000 max OOP	<u>Bronze Benefit</u> \$4,000 deductible / 60% coinsurance / \$6,500 max OOP	<u>Bronze Benefit</u> \$4,000 deductible / 60% coinsurance / \$6,500 max OOP	<u>Bronze Benefit</u> \$4,000 deductible / 60% coinsurance / \$6,500 max OOP	<u>Bronze Benefit</u> \$4,000 deductible / 60% coinsurance / \$6,500 max OOP
Fully Insured Benefit Plan Annual Cost:	\$358,680	\$215,208	\$215,208	\$215,208	\$215,208
Additional HRA Benefit:	None	\$4,000 per person per Calendar Year	\$4,000 per person per Calendar Year	\$4,000 per person per Calendar Year	\$4,000 per person per Calendar Year
Maximum Possible HRA Benefit Payments for the group:	None	\$4,000 x 51 = \$204,000	\$4,000 x 51 = \$204,000	\$4,000 x 51 = \$204,000	\$4,000 x 51 = \$204,000
HRA Administrative Cost:	None	\$12,090	\$12,090	\$12,090	\$12,090
Employer Excess Loss Supplemental Insurance Premium:	None	\$0	\$20,526	\$20,526	\$0
HRA Paid Claims:	None	\$204,000	\$102,000	\$61,000	\$61,000
TOTAL ANNUAL COST:	\$358,680	\$431,298	\$349,824	\$308,824	\$288,298
Savings/(Cost):	\$0 0%	(\$72,618) -20.2%	\$8,856 2.5%	\$49,856 13.9%	\$70,382 19.6%

HDHP/HRA Plans – Key Points

Carriers:

- All carriers now offer HDHP's that can be used for HRA/HSA plans
- Works with HMO/EPO, PPO and Indemnity plans
- Works with Small, Mid-Sized and Large employer products
- *Pays brokers their standard commission through Dickerson*

Administrators:

- We've negotiated *preferred pricing* with several HRA administrators
- Offer both traditional reimbursement & debit card claim payment
- *Pays brokers a fee of \$0 to \$20 per employee per month*

Employer Excess Loss:

- *Guarantees maximum HRA claims exposure*
- Written through the surplus lines market in London
- *Pays brokers a 10% commission*

Summary / Conclusion

HRA rules have changed and given employers more choices in the market under the Trump Administration

While ICHRA's may appear attractive, they put employees into the **individual market which may be unstable in some markets**

Group HRA's continue to price well in light of **ACA rating rules** for small employers (Platinum to Bronze savings = 30% to 45%)

Group HRA's have **outperformed traditional plans over the past 10 years** (*employers are retaining surplus dollars*)

Employers can be **guaranteed the maximum cost of an HDHP/HRA plan** will equal that of a traditional fully insured plan through the use of **Employer Excess Loss Insurance**

Dickerson Insurance Services is the **leader in alternative funded programs** that includes HDHP/HRA's, self-funding, level-funding, and captives

- We have partnerships with more than a dozen **third party administrators**
- We are **authorized general agents** for the major carriers and exchanges

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