

Individual HRAs: What Is an Individual Coverage Health Reimbursement Account and How Do I Know If It's Right for Me?

Amy Underwood	<p>Hello and welcome to the BXS Insurance webcast this September 29, 2020. I'm Amy Underwood, Director of Sales for Employee Benefits, BXS Insurance, and I'm joined today by Hunter Kinchen, one of our Employee Benefits Consultants at BXS Insurance.</p> <p>BXS Insurance is Right Where You Are during these challenging times. We're here with you, helping to advocate and provide guidance, so you can be there for what matters most.</p> <p>Remember, our world changes fast so things might have changed by the time you hear this.</p> <p>Today we're discussing Individual Coverage Health Reimbursement Accounts, or HRAs, which are providing a novel approach to employer-sponsored health coverage.</p>
Hunter Kinchen	<p>Hello, Amy. Yes, many people get their health insurance through their jobs, but rising costs and other issues have made this an increasingly complicated arrangement. Individual Coverage HRAs provide a new, surprisingly simply approach to employer-sponsored healthcare coverage.</p>
Amy Underwood	<p>What exactly are Individual Coverage HRAs?</p>
Hunter Kinchen	<p>The term "HRA" can stand for either Health Reimbursement Account or Health Reimbursement Arrangement. It doesn't really matter which term you use – they're the same thing. Individual Coverage HRAs are employer-funded plans. Employees can use HRAs to be reimbursed, tax-free, for qualified medical expenses, including premiums.</p>
Amy Underwood	<p>So, the employees purchase their own healthcare coverage and then the employer reimburses the employees for the premiums using the HRA?</p>
Hunter Kinchen	<p>Yes. The HRA may be used for certain other expenses as well, like deductibles and copays.</p>
Amy Underwood	<p>And where would the employees purchase coverage?</p>
Hunter Kinchen	<p>That will depend. Often, it will be through the Health Insurance Marketplace Exchange, but some employees may buy directly from a private insurance company. Employees can also use it on Medicare, if they're eligible for Medicare.</p>
Amy Underwood	<p>And what if they don't want to buy coverage at all? Can they use the money directly for expenses?</p>

Hunter Kinchen	No, to use the Individual Coverage HRA funds, the employee will typically need to purchase a health plan.
Amy Underwood	Interesting. Is this a new type of arrangement?
Hunter Kinchen	Yes, it is. Although HRAs have been around for a while, and could be used to reimburse qualified medical expenses, Individual Coverage HRAs are new. They're allowed under a final rule, issued in 2019, that makes it possible to use this type of HRA to buy coverage on the Marketplace.
Amy Underwood	Is this new HRA option available to all employers?
Hunter Kinchen	Yes, as of January 1, 2020, employers of any size can offer Individual Coverage HRAs, as long as they have at least one employee who isn't a self-employed owner or the spouse of a self-employed owner. Small employers – meaning those with between one and 50 employees – also have the option of offering a Qualified Small Employer Health Reimbursement Arrangement if they don't offer a group health plan. This type of plan is similar, but it comes with some additional restrictions, including an annual contribution cap. With Individual Coverage HRAs, there's not a contribution cap.
Amy Underwood	So, the Individual Coverage HRAs are available to both large and small employers? But what about the ACA employer mandate? Will large employers that choose to go this route be hit with employer mandate penalties?
Hunter Kinchen	No, the IRS says that an offer of Individual Coverage HRA counts as an offer of coverage under the employer mandate. As long as the HRA is considered affordable – and that will depend on how much the employer decides to contribute – there should be no employer mandate penalty.
Amy Underwood	Can employers offer both an Individual Coverage HRA and a traditional group health plan?
Hunter Kinchen	Yes and no. Yes, an employer may decide to offer an Individual Coverage HRA to one class of employees and a traditional group health plan to another class of employees. But no, it's not possible to offer both to the same employee, or to the same class of employees. Also, the HRA must be funded at the same amount for employees in the same class, although some differences may be allowed based on the employee's age and number of dependents.
Amy Underwood	Wait – it's called an Individual Coverage HRA – can it be used to cover spouses and dependents?
Hunter Kinchen	Actually, the employer can provide funds to cover other people in the employee's household. Individual Coverage HRAs give employers – and employees – a lot of choices.
Amy Underwood	Is that the main advantage?

Hunter Kinchen	There are many advantages, but yes, choice is definitely one. With this arrangement, employees aren't stuck with the plan offered by the company. Instead, they can choose any plan they want. This allows them to pick the coverage that meets their financial and medical needs. Many employers, especially smaller ones, only offer one group health coverage option, so switching to this model may provide employees with more options.
Amy Underwood	And that will benefit the employer, too, won't it?
Hunter Kinchen	Certainly. Employers need to offer great benefit options if they want to compete for top talent. Individual Coverage HRAs provide employers with another way to do this.
Amy Underwood	You said that choice was just one advantage. What are some of the other advantages?
Hunter Kinchen	Reduced administrative costs. Managing a traditional group health plan can be a major undertaking, and it can be very expensive. The number of employers offering coverage actually went down between 2010 and 2018. Individual Coverage HRAs provide a simple solution, which may be attractive to smaller companies especially. It may make it possible for them to offer health coverage when they otherwise might not be able to.
Amy Underwood	That's a good point. But do employers get the tax advantages they would get by offering traditional coverage?
Hunter Kinchen	There are some tax advantages for HRAs. The employee reimbursements are tax-free – they aren't included in the taxable wages.
Amy Underwood	OK, but what if the employee spends less than the HRA amount? Can the funds be rolled over? Or will they lose any money they don't spend?
Hunter Kinchen	The employer can allow for the funds to roll over into the next year. Since funds can be used for the premium as well as other out-of-pocket costs, rolling over unused funds could help employees pay for medical emergencies that arise in the future.
Amy Underwood	It all sounds pretty good, but what about disadvantages? Are there any downsides to HRAs?
Hunter Kinchen	Sure. I mean, no system is perfect. HRAs have some disadvantages, and they may not be right for all employers. Some employers, especially larger ones, may want to manage their own benefits, especially if they've found ways to reduce the cost of coverage. Although large employers can use Individual Coverage HRAs, it's thought that small and medium sized employers will be especially interested in the option.
Amy Underwood	How about from the employee's perspective? Does the employee have any reason to be unhappy with HRAs?

Hunter Kinchen	Well, the system does put a lot of the responsibility on the employee. The employee has to do the research to find and enroll in the right policy, and that takes some legwork. Also, HRAs provide reimbursements, so the employee does have to deal with the process of requesting the reimbursement. This isn't all bad – it puts the employees in control of their coverage, and many employees will appreciate that even if it does require a little more work – but I suppose some employees might prefer to let the employer do everything.
Amy Underwood	What if the employee leaves the company? Can the employees take the HRA with them?
Hunter Kinchen	No. HRAs are both employer-funded and employer-owned, and they aren't portable. If an employee quits or is terminated, the employee loses the HRA.
Amy Underwood	So, does the employee lose coverage? What about COBRA?
Hunter Kinchen	HRAs can be subject to COBRA continuation coverage laws if the employer is subject to these laws. That will depend on the size of the employer, and whether there are any state laws in addition to the federal COBRA laws. But even if COBRA doesn't apply to the employer, or if the employee decides not to elect it, health coverage doesn't have to end when the HRA ends. The employee purchased a plan and may continue to maintain coverage even without the HRA reimbursements, and possibly with the help of ACA premium tax credits. This is actually another possible advantage to HRAs – the system can mean that employees don't have to change their health plan when they change jobs.
Amy Underwood	How do Individual Coverage HRAs compare to other savings accounts designed for healthcare expenses?
Hunter Kinchen	You mean HSAs and FSAs?
Amy Underwood	Yes.
Hunter Kinchen	They're very different on many levels, although they have some basic similarities. First of all, Individual Coverage HRAs can be used to purchase health insurance coverage, whereas Health Savings Accounts and Flexible Spending Accounts are more designed to complement a health plan and pay for certain allowable expenses that aren't covered. HSAs in particular can only be used with high-deductible health insurance plans, whether they're employer-sponsored or purchased privately by the individual. Also, HSAs are owned by the individual, not the employer, and they're portable. HRAs are owned by the employer, and they're not portable.
Amy Underwood	What should employers consider before deciding whether or not to go the Individual Coverage HRA route?

Hunter Kinchen	In very general terms, employers should look at how it will impact the company and how it will impact the employees. More specifically, there are a lot of questions to ask. First of all, how will it impact costs? If the company has had a hard time keeping healthcare costs down, switching to an HRA system may save money. On the other hand, if the company has been very successful at managing costs, the switch might not make financial sense. And that brings up another question to consider – how much should the employer contribute?
Amy Underwood	Yes, how can employers calculate the right contribution?
Hunter Kinchen	On the low end, if the employer is trying to comply with the ACA employer mandate requirements, the contribution has to be enough to make health coverage affordable. Under the ACA, a job-based health plan should not cost more than 9.78% of the employee’s household income to be considered affordable.
Amy Underwood	So that will take a little math.
Hunter Kinchen	Yes, it will. On the high end, there’s no upper limit to Individual Coverage HRA contributions, as long as employees in the same class are treated the same.
Amy Underwood	What other questions should employers ask themselves?
Hunter Kinchen	Whether the administrative burden of managing a traditional group health plan is worthwhile. If it’s not, switching to an Individual Coverage HRA may make sense, especially if the alternative is getting rid of coverage altogether. Many smaller employers may find this to be the case.
Amy Underwood	And what else?
Hunter Kinchen	How it will impact the employees. In many cases, employees may be happy with the change, but if they’re losing a health plan they really liked, there may be some frustration. Employees may be confused about the new system, too.
Amy Underwood	How can employers help ease that confusion?
Hunter Kinchen	As with any major benefits change, education is key. Employers need to give employees a written notice as soon as they’re eligible, and this needs to be at least 90 days before the beginning of each plan year. But it’s important to go beyond the bare minimum requirements. Employers should help employees understand their options, how to enroll and how to get the most out of their coverage.
Amy Underwood	What happens if employees don’t enroll?
Hunter Kinchen	Then they can lose out on the benefits, and that’s bad for everyone. Employees who don’t take advantage of their benefits may become dissatisfied with their employer, especially if they blame the employer for the trouble.

Amy Underwood	In other words, even though employers are giving a lot of the control to the employees, employers can't just forget about health coverage entirely. They still need to be on top of benefits.
Hunter Kinchen	Exactly.
Amy Underwood	Well, thank you (Hunter Kinchen's Name). You've given us a lot to think about. The new HRA rules create some interesting opportunities for employers and their employees, and maybe someone who's listening today will be able to take advantage of the changes.
Hunter Kinchen	Yes, HRAs can be a good fit for many employers. Thank you, (Amy Underwood's Name). Remember, our world changes fast so things might have changed by the time you hear this. Thank you for listening to our webcast.

Sources:

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