

Qualified Small Employer HRA (QSEHRA) Overview



Which employers are eligible for QSEHRAs?

Available to businesses with fewer than 50 full-time employees that does not offer a traditional group health plan. An employer that provides a group health plan to current employees in an excludable category (see below) is not an eligible employer.

What classes of employees can participate in a QSEHRA?

All employees must participate unless under the plan they are excluded based on one or more of the excludable category (see below)

Which categories of employees are not eligible?

Excludable Categories:

- Employees who have not completed 90 days of service
- Employees who have not attained age 25 before the beginning of the plan year
- Part-time employees
- Seasonal employees
- Non-participating employees covered by a collective bargaining agreement (if health benefits were the subject of good faith bargaining)
- Non-resident aliens who do not receive earned income from the employer from sources within the United States.

An employee must be offered the QSEHRA no later than the day after the date on which the employee ceases to fall within any of the excludable categories.

What expenses are eligible in a QSEHRA?

QSEHRAs can reimburse employees for medical care as defined under Code §213(d) that are incurred during the QSEHRA period of coverage. Reimbursement of individual major medical health insurance premiums, as well as other Code §213(d) expenses incurred during the QSEHRA coverage period, is permitted. A QSEHRA may reimburse premium payments for coverage of a spouse or other eligible family member, including post-tax premium expenses paid through another employer's plan.

What are the Substantiation Requirements for a QSEHRA?

213(d) medical expense substantiation required per IRS regulations governing HRAs. The "MEC substantiation" can be accomplished by obtaining an attestation by the employee that the coverage is Minimum Essential Coverage (MEC). The initial proof of MEC must be provided at least annually for each individual whose expenses are to be reimbursed, before the first expense of that individual is reimbursed. An employer may rely on the employee attestation absent actual knowledge that the individual does not have MEC. For subsequent months, attestation that the individual continues to have MEC can be incorporated in the reimbursement claim form or process.

Can a business offer group insurance with a QSEHRA?

Businesses cannot offer group health, dental, or vision insurance in addition to a QSEHRA.

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What tax savings are available when using a QSEHRA?

Reimbursements are free from payroll and income tax. Only employees with minimum essential coverage (MEC) can receive QSEHRA reimbursements free of income tax. Employees without MEC must report all QSEHRA reimbursements as taxable income when they file their taxes.

Do QSEHRAs interact with Cafeteria Plans?

N/A.

What are the carryovers and cash-out amounts on a QSEHRA?

Carryovers permitted. Total reimbursements in one year cannot exceed the annual maximum. A QSEHRA can have a run-out period for submission of claims incurred during the coverage period. Cash-outs are not permitted even on a taxable basis, and will disqualify a QSEHRA, causing all payments to all eligible employees to be taxable.

Do QSEHRAs have forfeitures?

Employees that cease to be eligible would forfeit the remaining balance. COBRA does not apply.

Can employees with Premium Tax Credits (PTC) participate in a QSEHRA?

Employees with premium tax credits can participate in the QSEHRA, but their premium tax credit will be reduced by the amount of their QSEHRA allowance.

Do QSEHRAs have waivers and opt-outs?

Employees cannot opt out of the QSEHRA.

Do employer shared responsibility provisions apply to QSEHRAs?

N/A.

Are QSEHRAs HSA eligible plans?

QSEHRAs are not HSA compatible.

Is a QSEHRA an ERISA plan?

Yes, for the HRA. ERISA plan document, SPD, SBC and Form 5500 required. Note: individual health insurance coverage reimbursed through a QSEHRA does not make the individual health insurance an ERISA plan.

Does Non-Discrimination Testing apply to QSEHRAs?

No.

Are QSEHRAs COBRA plans?

No.

Is Medicare Secondary Payer (MSP) reporting required for QSEHRAs?

No.

Do QSEHRAs have notice requirements?

Employers must furnish a written notice to each eligible employee at least 90 days before the beginning of each plan year. For employees who become eligible to participate in the QSEHRA after the beginning of the plan year (e.g., employees who are hired midyear), the notice must be sent on or before the first day the employee becomes eligible for a QSEHRA. The notice can be sent in writing or via an electronic medium (e.g., email) using IRS rules for the use of electronic media.

Sources: Thomson Reuters Checkpoint (EBIA), ECFC Flex Report Article June 2019, IRS FAQs, HRA Regulations