hra council

Health Reimbursement Arrangements: At-A-Glance

Comparison of ICHRAs and QSEHRAs

The Qualified Small Employer HRA (QSEHRA) and the Individual Coverage HRA (ICHRA) are two popular Health Reimbursement Arrangements that are cost-effective and flexible. While QSEHRA is uniquely suited for small employers, the ICHRA can be offered by employers of any size. Both HRAs allow organizations to allocate a budget to their employees to purchase individual health coverage and for other out-of-pocket medical expenses. Both vary in how they can be customized and to whom they can (or must) be offered.

What are other similarities?

Reimbursement method: Both HRAs have the same basic structure: employers set a predefined allowance amount; employees make a qualified purchase; and the latter are reimbursed up to their allowance amount when the expense is reviewed and approved.

Employer contributions: Both HRAs are employer-owned and employer-funded health benefits. Additionally, unlike Flexible Spending Accounts (FSAs) or Health Savings Accounts (HSAs), all HRA contributions made by the employer belong to the company. This means that when an employee leaves the organization, they don't take any HRA funds with them.

Eligible expenses: Employees are allowed to get reimbursed for qualified medical expenses dictated by IRS Publication 502, irrespective of the HRA type.

Tax advantages: HRAs have substantial tax advantages for both employers and employees. All employer HRA contributions are tax-deductible and payroll tax-free. Employees don't have to pay income taxes on the reimbursements they receive either, as long as their individual health insurance policy meets MEC.

What are the differences?

Employee classes: While an ICHRA allows employers to set different allowance amounts based on up to 11 specific employee classes, all full-time W-2 employees must be offered the same QSEHRA coverage.

Contribution limits: QSEHRAs have separate maximum contribution limits for single individuals and family statuses that are determined by the IRS each year. ICHRAs offer quite a bit of flexibility in terms of employer contribution with no minimum or maximum contribution limits.

Premium tax credits: Employees offered an ICHRA who also qualify for a premium tax credit may be able to pick if they want to participate in the ICHRA or collect their tax credit. This is dependent on an affordability calculation. With a QSEHRA, employees can keep their premium tax credit and participate in the QSEHRA but must reduce their tax credit offering by the amount of their QSEHRA allowance.