



Employee Benefits

Consulting and Administration to Fit Your Organization's Needs



For Your Benefit.

Individual Health Policies Using a Health Reimbursement Account (HRA) and Premium Reimbursement Plan (PRP)

Ben Cohen, CEBS

Employee Benefit Specialist, Kushner & Company

Many employers today are looking for every available advantage to maintain health coverage for their employees at a reasonable cost to both the employee and the employer. One tool that employers have been utilizing is a Health Reimbursement Account (HRA). The HRA is being used in a variety of different ways, including deductible and coinsurance reimbursement, eligible medical expense reimbursements, and now individual health premium reimbursement. Employers can now use an HRA to help lock in total employer health expenses, and employees can utilize a Premium Reimbursement Plan (PRP) to pay for any additional premium contributions to individual policies on a pre-tax basis.

With the increase in individual plan offerings throughout the country, and the tacit approval by many insurance carriers in most states that they can be offered through employers, we wanted to share a mechanism for employers and employees to save money when utilizing these plans.

The recently released new Proposed Section 125 Cafeteria Plan Regulations issued by the IRS (see [IRS Issues New Proposed Section 125 Cafeteria Plan Regulations](#)) expressly allows Premium Reimbursement Plans (PRP) that permit employees to reimburse themselves on a pre-tax basis for their individual health policies. The mechanism can be established by an employer in a number of different ways, but it is similar to the Premium-Only Plans (POP) that are currently utilized for employer-provided health plan employee contributions.

While premium reimbursement from an HRA and Section 125 perspective are certainly allowable, there are areas of concern that employers and benefits advisers must be aware of. There are regulatory areas that may come into play if a plan is not designed well. There are also areas that have still not been completely addressed by governmental regulations. Some of the areas of concern include the following:

- **ERISA Compliance.** An ERISA plan is one that is “established or maintained” by an employer. The Department of Labor (DOL), however, does provide a “safe harbor” for some “voluntary” plans. The question is whether these individual health policies constitute a voluntary plan. How much an employer “endorses” a plan, or is involved in the planning and administration will help determine whether or not the plan must comply with ERISA.

- **HIPAA Non-Discrimination.** Issues with HIPAA non-discrimination rules can apply when the employer provides coverage for two or more individual policies, and can become an issue if an insurer bases eligibility and/or premiums on each individual. HIPAA prohibits a group health plan from discriminating with regard to eligibility, premiums, or contributions based on specific health status related factors.

Individual plans that are made available on a guaranteed-issue basis, without medical underwriting as to eligibility or premiums should be allowed, however, if they comply with all of HIPAA's requirements.

While there is no formal guidance for this approach, it appears that if an HRA reimbursed not only individual premiums, but all other eligible medical expenses (IRC Section 213(d)), that it may be allowable since all employees have an opportunity to use the full HRA amount available to them.

- **Insurance Carriers.** While there are certainly questions within some of the regulatory areas regarding this approach, the more pressing concern may be from the insurance carriers themselves. Many insurance carriers have begun to look closely at whether or not individual policies reimbursed by an HRA would require their adherence to small group market rules, etc. It is important to check with each carrier as to their opinion on this issue.

An HRA can be established by an employer to allow employees to request reimbursement of premium expenses incurred when they have purchased an individual (versus group) health plan. For example, an employer may wish to reimburse up to \$400 per month for employee health premiums or medical expenses. An HRA would be established with a benefit maximum of \$400 per month. If the actual cost of the health plan exceeded the HRA maximum of \$400, the employee could use the Premium Reimbursement Plan (PRP) to pay for the additional amount on a pre-tax basis. If the premium did not reach that level, or the employee did not need individual coverage, the \$400 could be used to reimburse any other eligible medical expense incurred by the employee or their dependents.

From a payroll perspective, the Premium Reimbursement process through Section 125 can be fairly straightforward.

| | <i>Without PRP</i> | <i>With PRP</i> |
|----------------------------------|--------------------|-----------------|
| Total Income | \$800 | \$800 |
| Taxable Income | \$800 | \$600 |
| After Taxes (assume 30%) | \$560 | \$420 |
| Plus Non-Taxable Income | \$0 | \$200 |
| Total Paycheck | \$560 | \$620 |
| Insurance Premium Payment | \$200 | \$200 |
| Total "Take Home" Pay | \$360 | \$420 |
| Effective Pay Increase | \$0 | \$60 |

Employee is then responsible to pay the insurance company for the premium.

The advantage of the HRA/PRP solution to an employer is the ability to still provide funds for health coverage for their employees, but also allows them to limit their total expenditure each month/year, and to realize payroll tax savings as well. Employees have the advantage of still having, in essence, available health care via the HRA, and pre-tax savings for their premium contributions. The availability of individual policies also has an added advantage of allowing employees to tailor the plan to their needs.

Please see below for a few examples of HRA reimbursements:

Employee Pays Insurance Carrier

Employer HRA Contribution: \$400

Example: Employee purchases individual health plan with a premium of \$600 per month. Employee submits \$600 premium bill to employer for reimbursement. The first \$400 is reimbursed to the employee through the HRA. The remaining \$200 is subtracted from the employee's taxable income through the payroll process, and is then reimbursed immediately through the employee's paycheck. The employee is then responsible for paying the insurance carrier for the premium due.

Individual Insurance and/or All Eligible Medical Expenses (213(d))

Employer HRA Contribution: \$300 single or \$600 family

Example: Employee purchases individual single coverage health plan with a premium of \$200 per month. Employee submits \$200 premium bill to employer to apply HRA contribution. The remaining \$100 may also be used to reimburse other eligible medical expenses. The employee is still responsible for paying the premium to the insurance carrier.

There are many different ways in which the HRA and PRP can be established and maintained by an employer. As you can see, there are a number of gray areas, and potential pitfalls involved in these designs. For more information on this program, including fee options, please contact Kushner & Company.

Benefit articles are provided as a service by [Kushner & Company](#) for the exclusive use of our clients and subscribers. From our highly trained, knowledgeable staff to our leading edge technology systems, Kushner & Company's comprehensive employee benefits services guarantee our clients ease and excellence. If you would like to speak to someone about how our services could benefit your organization, please contact your Employee Benefit Specialist or info@kushnerco.com or 800-KUSHNER.

- *Strategic Benefit Reviews*
- *Health and Welfare Plan Design*
- *Plan Implementations*
- *Benefit Communication*
- *Flexible Benefit Plans*
- *FSA/HRA/HSA Plan Administration*
- *COBRA Administration*
- *Retirement Plan Design*
- *Retirement Plan Administration*
- *Signature-Ready IRS Form 5500s*

©2008 Kushner & Company