The complete guide to the group coverage HRA (GCHRA)

Everything you need to know about offering a GCHRA

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What is a group coverage HRA (GCHRA)?

A group coverage health reimbursement arrangement (GCHRA), also known as an integrated HRA, is an employer-sponsored reimbursement plan organizations use to supplement group health insurance. With it, employers offer employees an allowance that reimburses them for the cost of eligible medical expenses.

When you offer a GCHRA alongside a high-deductible health plan (HDHP) you can keep the cost of premiums down while retaining coverage for employees by supplementing deductibles and out-of-pocket costs.

But, a GCHRA doesn't require an HDHP. All group health insurance plans are compatible with a GCHRA.

Here's a quick summary of how it works:

- The employer generally begins by offering a high-deductible group health insurance plan to achieve lower premium costs. You can integrate any group health insurance plan that qualifies as minimum essential coverage (MEC) with a GCHRA, though lower deductible plans result in less cost savings for the employer.

- The employer then chooses whether to offer a GCHRA to all, or only certain classes of, their employees. Classes must be based on bonafide, job-based criteria such as salaried or hourly; full-time or part-time; or executives, management, or staff. Under the plan, they'll determine allowances for each class which are used toward out-of-pocket expenses, helping offset their employees' cost of healthcare.

- Unused funds at the end of the plan year remain with the organization since the employer owns the plan, contributing to further savings.

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Who can participate in a GCHRA?

The only requirement for an employer to offer a GCHRA is that they must offer a group health insurance plan to their employees. There are no employee count requirements like some other HRAs, and any group plan that qualifies as MEC satisfies the requirement.

Only employees who enroll in their organization's group health insurance plan are eligible to participate in a GCHRA. The plan is intended as a supplement to help employees with their out-of-pocket medical expenses and other expenses as defined in IRS Publication 502[1].

With a GCHRA, employers can offer more than one group plan. When doing so they can choose to make the HRA available to employees on just one of the plans, as long as the plan with the HRA includes all employees in an eligible class.

C corporation owners can participate in the GCHRA along with employees. Owners of a partnership or an LLC taxed as a partnership aren't eligible on their own, but can gain access through a spouse if they're a W-2 employee. Owners/shareholders of S corporations and their spouses and dependents aren't eligible to participate.

Options for offering a GCHRA

There are a few different ways in which an employer can choose to administer a GCHRA. These include self-administration, third-party (outsourced) administration, and partnering with a software provider.

Option 1: Self-administration

While the initial draw of self administration can be strong, there are many hidden costs associated with this approach. One of the biggest

1 https://www.irs.gov/pub/irs-pdf/p502.pdf

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risks associated with self-administering an HRA like the GCHRA is stepping out of compliance with government regulations. While the GCHRA is a flexible and cost-saving benefit, following federal guidelines is vital to avoiding major fines from the IRS.

A major consideration to make when thinking about self-administration is the creation of plan documents. HRA plan documents outline the benefit and provide the structure under which the benefit functions.

Due to the complexity and accuracy required to create comprehensive plan documents, it's best not to leave things to chance by drafting them without consulting a professional. If an organization's plan documents operate outside of IRS Section 9831, they could be fined up to $100 per day, per employee, per violation.

Employers attempting to self-administer a GCHRA often choose to work with an attorney to have their plan documents drafted. Although an attorney will be able to produce high quality documents, the cost of this one-off service is expensive, and doesn't position the employer well if the plan needs to be changed since most lawyers charge additional fees for document revisions.

Self administration also requires a significant time investment. Every month, at least one staff member must review employees' reimbursement requests, determine whether to pay them, submit payment, and record the reimbursement before storing all of the necessary documentation for a minimum of seven years.

Considering the cost of plan documents, potential compliance penalties, and the time investment, self administration rarely results in the bargain it seemed at first.

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Option 2: Outsourcing GCHRA administration

Another option employers have when offering a GCHRA is a third-party administrator (TPA).

Though their service features vary, most TPAs provide plan documents, receive and validate reimbursement requests, and finally disburse money directly to employees from an account managed in the employer's name. Due to their unique structure, many TPAs are able to offer relatively low fees. However, these groups have other features that may be unfavorable.

For example, many outsourced administrators require you to pre-fund an account with each employee's full annual allowance. This can amount to a large sum of money to pay upfront and, what's more, many administrators invest these funds and collect the interest for themselves.

Finally, turning GCHRA administration over to a TPA means support for your employees will be outsourced as well. All employee questions will be directed outside of the organization, which could be inconvenient if the TPA is not readily available or provides poor customer service.

Option 3: Administering a GCHRA through a software provider

If you're attracted to the benefits of self administration but wary of the time costs and compliance concerns, partnering with a software provider may be the right solution for your organization.

Software partners provide a platform for administering employee benefits like the GCHRA. Similar to an outsourced administrator, the software provides your organization with a legal plan document and summary plan description (SPD), verifies employee expenses for approval by the plan administrator, and automatically sends required notices. Unlike many TPAs, however, software providers act as a support system for self administrators.

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When you use this solution, you're not transferring administration responsibilities to another party; rather, you're using a tool to help you administer your own benefit. This means your plan will be administered by a member of your own organization who will be able to answer employee questions in a timely, personalized way, supported by a customer service team provided by the software company. Software providers act as benefits consultants, answering employee questions about the reimbursement process and ensuring success for both employees and the organization.

Software administration platforms also allow you to reimburse employees upon request, rather than pre-funding an account. This means that your entire benefits budget stays with your organization until employees incur expenses. For these unique services, software providers often charge higher setup costs than outsourced administrators. If you're considering this solution, you should make sure you have the budget.

Employee classes

One of the best features of the GCHRA is the ability to offer the benefit to specific customized classes. Employers can keep things simple by offering the same benefit to all employees or tailor the plan to suit the needs of different employee groups, like salaried or hourly; full-time or part-time; or executives, managers, and staff.

In addition to defining which employees are benefit-eligible by class, employers can also customize the benefit for each class with varying allowances, deductibles, and cost-sharing.

Allowances

Employers offering a GCHRA have a few choices when it comes to allowances. First, they can decide to provide either the full annual allowance for the benefit period so that employees have access to

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the funds immediately, or a monthly allowance that accrues over the course of the benefit period.

The final consideration to make is whether to offer all employees in a given class the same allowance or vary the allowances based on family status (married, single, married w/ dependents, etc.).

HRA deductibles and cost-sharing

Along with setting an allowance that fits their budget, employers can add a deductible to the plan to further control their costs. When a deductible is set on the plan, employees pay a certain dollar amount toward expenses before they are eligible for any reimbursement. For example, employees with a $500 deductible must pay $500 out of pocket before any expenses can be reimbursed by the employer. The amount of deductible remaining is generally tracked by requiring employees to submit proof of their expenses.

The GCHRA can also include cost-sharing once the deductible (if any) is met. This makes employees responsible for a certain percentage of all eligible expenses, similar to coinsurance on health insurance policies. For example, employees may be required to cover 20% of all their eligible expenses and will be reimbursed for the remaining 80%, up to their allowance.

Cost sharing does not apply to expenses that go toward meeting the HRA deductible.

Eligible expenses

Eligible expenses can differ depending on what the employer chooses to allow. Legally, eligible expenses are defined in Publication 502, but can be limited tocertain expenses on the list.

It's important to note that according to Public Health Service Act 2711,

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a group coverage HRA can't be used to reimburse insurance premiums of any kind[2].

Explanation of benefits (EOB) requirement

An explanation of benefits (EOB) is a specific document provided by insurance carriers that reflects the services provided to–and charges incurred by–employees. The EOB indicates which services are covered and the extent to which they are covered. The amounts that employees are responsible for are clearly outlined next to the percentages the insurance plan covers.

Employers can enact an EOB requirement that limits eligible expenses to items deemed eligible by the insurance provider, rather than the standard items deemed eligible by the IRS.

When can the plan start?

Employers can launch a GCHRA at any time, however, the plan period will end at the same time as the insurance plan. This ensures that the GCHRA plan design is aligned with existing insurance deductibles.

An organization can also enact a waiting period. Waiting periods allow employers to set a window after a new employee's hire date before they can use the HRA benefit. It's a best practice to match waiting periods to the waiting period included in the connected group health insurance plan.

2 https://www.law.cornell.edu/cfr/text/29/2590.715-2711#a_2

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Conclusion

The rising costs of health insurance have long been a problem for employers. Many though, have found a solution with an HRA. With it, thousands of employers throughout the United States have resolved their most vexing health benefits challenges.

A group coverage HRA allows employers to have significant control over costs. Allowances, classes, and other benefit design aspects are customizable to an organization's specific needs. Deductibles can help to limit upfront expenses. Cost sharing further limits financial liability, while still helpfully supplementing employees' out of pocket costs. A GCHRA is an investment in savings that can improve your organization's culture and assist with hiring and retaining key employees.

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