The comprehensive guide to the QSEHRA

2021

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Introduction

Whether you're looking to offer benefits for the first time, being forced to cancel your group policy due to cost, or you're interested in a simpler approach with more choice, your search is over.

A qualified small employer health reimbursement arrangement (QSEHRA) allows employees to purchase qualified items like medical prescriptions and individual health insurance and receive a reimbursement from their employer. In addition, when they leave the organization, they get to keep their insurance coverage, whichis independent of the organization. The employer then reimburses each employee tax-free for their qualified healthcare expenses up to a set monthly allowance.

Highlight:

"There is a better way for your organization to provide employee health benefits"

Small employers have a lot to gain from a different approach. In addition to keeping costs in check, the QSEHRA helps small employers hire and keep quality employees. Most employees value good benefits above a higher salary, but as it stands, many small employers can't afford to offer group health insurance.[1]

By dropping benefits altogether, however, they risk losing current and future employees. The QSEHRA offers a solution to that problem. In this guide, we'll explain why small employers are adopting HRAs and how to know if an HRA will work for your organization.

The small employer benefits challenge

Today's challenging benefits landscape has led many small employers to take one of two unsatisfactory approaches: Stretch the budget to offer an expensive group health insurance plan or offer nothing.

1 Better Pay and Benefits Loom Large in Job Satisfaction, SHRM https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/pay-benefits-satisfaction.aspx

Group health insurance costs are unsustainable

Decades ago, group policies were the best way to provide quality health insurance to employees. Today, many employers and employees find this traditional approach frustrating and costly. From 2010 to 2020, the annual cost of group health insurance for a family of four has gone up by nearly 54 percent—increasing from just under $14,000 in 2010 to more than $20,000 in 2020.[2]

54%: the increase in annual group health insurance premiums for a family of four from 2010 to 2020

Due to the increasing cost and complexity of group health insurance, few small employers provide health insurance to employees today. As shown in the chart below, over 25% of very small employers (3–9 employees) offer no health insurance, compared to 89 percent of large employers (200+ employees).[3]

Since 2010, the percentage of Americans covered by group health insurance has steadily declined. Facing double-digit premium increases, many employers have either cut health benefits or changed policies to include higher deductibles, larger co-pays, and more employee premium sharing.

Health benefits are retention and culture boosters

Cutting health benefits entirely is one of the most drastic actions a small employer can take. Yet in trying to escape the unsustainable costs of group health insurance, these employers are actually creating new costs—ones that may be even greater. Offering benefits is crucial to solving one of small employers' toughest challenges: hiring and keeping employees.

By reducing or cutting health benefits, you're disappointing your current employees and putting off potential hires. More than three-

2 - 2016 Employer Health Benefits Survey, Kaiser Family Foundation, September 14, 2016, 35.

3 - 2020 Employer Health Benefits Survey, Kaiser Family Foundation, October 08, 2020, 45.

quarters of job seekers say benefits are either “very important” or “extremely important” when considering a job offer, and the same percentage say they prefer better benefits to a higher salary. By not offering benefits, many employers unintentionally drive away potential and current employees.

That can be an expensive misstep. It costs a typical employer the equivalent of 6 to 9 months in salary each time they have to replace a salaried employee—that’s $30,000 to $45,000 for a $60,000 manager in hiring and training expenses, along with the potential lost revenue from customers. These costs far outweigh the expense of offering benefits to employees.

Highlight:

“88% of employees would consider a lower-paying job for higher quality health benefits. 54% would “heavily consider” such a tradeoff”

Small employers can’t drop their health benefits solution if they want to hire and keep top talent, but group health insurance costs are unrealistic. Fortunately, there is a third option.

The solution: The QSEHRA

Rising health insurance costs have created a paradigm shift in employee health benefits, from an employer-provided, one-size-fits-all model to an employer-funded, employee choice model.

Instead of shopping for and choosing one policy that covers all employees, employers can set money aside to reimburse employees for policies employees choose themselves.

With a QSEHRA, employers can reimburse employees for individual health insurance and medical expenses. Employers control their costs by setting a monthly allowance for each employee, and employees are free to shop for individual policies that best meet their medical and financial needs.

Employers receive the same tax advantages with a QSEHRA as they do with group insurance—reimbursements are treated as tax-free to the organization and employees. What does this mean for you? You get the best of both worlds: a formal, tax-free health benefit at a price you control.

Hiring and retaining employees

A QSEHRA also addresses the challenge of how to hire and keep talented employees.

Employees value benefits that are tax-free, easy to understand, and easy to use. When you set allowances in your QSEHRA, employees have a clear budget for health spending. All employees, regardless of health needs, can easily purchase an individual health insurance policy that makes the best sense for their needs.

If they already have coverage through a spouse's or parent's group policy or even choose to be uninsured, they can use their QSEHRA allowance for their out-of-pocket medical expenses like co-pays, doctor's visits, and prescription medications.

Employees appreciate the ability to choose the doctor network they want. By offering an HRA, you're showing your employees that you understand and respect their need for flexibility and individual choice. Instead of being forced into a group policy their employer chose for them, with a QSEHRA, employees are free to choose a policy that allows them to keep their doctors and covers their prescriptions. That's a key perk they may not get elsewhere, and it's one that could make a difference in whether your employee sticks with you or looks for another opportunity.

How a QSEHRA works

Here's a basic overview of how your QSEHRA will work. As shown in the graphic, the idea is simple. With a QSEHRA, your organization offers employees a monthly allowance to reimburse health insurance and medical expenses. Employees choose and pay for their own health policies, and your organization reimburses them up to the set allowance amount.

With an HRA, all reimbursements are made on a tax-free basis. When you're giving employees tax-free money, your organization must ensure compliance with tax and labor laws, including IRS and Department of Labor requirements.

That means you must have certain policies and procedures in place, including but not limited to legal plan documents, a Summary Plan Description (SPD), notice requirements, and a system for reviewing and storing documentation. Luckily, these compliance-related items are included in a PeopleKeep subscription, so there's no need to worry. We'll cover more about these later.

How a QSEHRA works

Step 1

The employer sets an allowance

Step 2

Employees request reimbursement

Step 3

A third party reviews documentation

Step 4

The employer reimburses employees

Fast facts on the QSEHRA

Which employers can offer this?	All employers exempt from the employer mandate—generally, employers with fewer than 50 full-time employees—that do not offer any other group health plan can use a QSEHRA.
Who can contribute?	The employer only—employees cannot contribute.
Who can participate?	The employer can choose between inviting all W-2 employees (part-time and full-time) or all W-2 employees working more than 30 hours per week (just full-time).
What are the annual allowance limits?	2022 limits are $5,450 for single employees, $11,050 for employees with families.* *IRS RPC 2021-45
Is the monthly allowance “use it or lose it”?	No. Employees can access unused allowance funds throughout the year. Any amounts that are unused by the end of the year will remain within the organization.
Can employees access premium tax credits?	Yes; however, there are coordination rules that require the amount of the premium tax credit to be reduced by the amount of the organization’s monthly allowance.
Are employees required to have health insurance to participate?	No. All employees can receive reimbursement, but must have minimum essential coverage (MEC)* to qualify for reimbursements free of income tax. *For more information on what qualifies as minimum essential coverage, see https://www.peoplekeep.com/blog/what-is-minimum-essential-coverage.
Is an employee required to have individual health insurance to participate?	No.

Fast facts on the QSEHRA

Can employees use the allowance toward expenses incurred by their family members?	Yes.
What types of expenses are reimbursable?	Reimbursable expenses include premiums for individual health, dental, or vision policies. Co-pays, deductibles, and other medical expenses defined in IRS Publication 502 are also eligible.* *U.S. Internal Revenue Service.
Can employees be reimbursed for an expense larger than their monthly allowance?	Yes. The QSEHRA allows for large expenses to be reimbursed by the organization over time. Employees receive an annual benefit amount that is made available through monthly allowances. If an employee's HRA balance is insufficient to reimburse the expense at the time it is verified, future monthly allowances will go toward continuing to reimburse the expense.

Tip:

We recommend using an administration tool to ensure compliance and save time in managing required documentation and notices. See the section titled "How to choose a QSEHRA administration tool to learn more

What about a taxable raise?

If you don't offer group health insurance, it might sound good to give certain employees a taxable wage increase—essentially, a raise—instead of offering a QSEHRA. But there are some key differences between the two approaches you should keep in mind.

Unlike a QSEHRA, a salary increase is taxable for both the organization and the employee. That's less money for the employee to use on a health insurance policy than they might receive through an HRA, and it costs the organization an additional 7.65 percent in payroll taxes, which adds hundreds of dollars per year per employee in taxes. Additionally, the additional wages are paid even if the employee doesn't use them on health insurance or medical expenses. A QSEHRA allows the organization to ensure the money is used for healthcare expenses and keep any unused funds.

Highlight:

"Taxable stipends and wage increases subject employers and employees to payroll and income taxes—a big price to pay just to keep things simple"

There are several pros and cons to each approach you should consider. Giving employees raises might save an employer from compliance requirements associated with a QSEHRA, but most employees prefer a formal, tax-free benefit to a pay raise.[4]

The chart below helps you compare these two approaches.

	Pay Raise	QSEHRA
Excluded from payroll tax?	No	Yes
Tax-free to the employee?	No	Yes
Employees required to purchase health insurance to receive?	No	No
Employer keeps unused funds?	No	Yes
Compliance requirements?	No	Yes
Required to offer to all full-time employees?	No	Yes

4 Employee Benefits Survey: The Cost and Value of Employee Perks. Fractl.

Reasons a QSEHRA is good for small employers

1. Hire and keep employees

> **Highlight:**
>
> **"With a QSEHRA, your organization decides how much money to put toward employee health insurance instead of having your costs dictated by insurance companies"**

One of small employers' toughest and most costly challenges is recruiting new hires and preventing turnover. Because employees place such a high value on benefits, offering nothing places your organization at a disadvantage. Not only could you lose current employees, but you could also drive away prospective future employees who won't join an organization without a health benefit. When you consider the time and resources spent on advertising open positions, interviewing candidates, and drawing up offer letters, a rejected job offer due to your lack of benefits is costly.

2. Fix your costs

Many small employers cut benefits due to high cost, but that's avoidable with a QSEHRA. With this approach, your organization decides how much money to put toward employee health insurance instead of having costs dictated by insurance companies. You can also increase or decrease your organization's allowances over time according to your organization's needs. HRAs help you get insurance companies out of your calculations when you're creating your yearly budget.

3. Help all your employees, regardless of insurance coverage status

When you offer a QSEHRA, every one of your employees benefits. If they choose not to get an insurance premium reimbursed, they can still get reimbursed for out-of-pocket expenses like co-pays, medical prescriptions and more.

4. Concentrate on your organization's mission

Offering group health insurance—or offering nothing at all—costs small employers time, money, and productivity. A QSEHRA frees you and your employees, allowing everyone to focus on the organization's mission instead of managing the complexities and rising costs of a group health insurance policy.

Individual health insurance provides value to your employees

Employees are increasingly preferring individual policies to group health insurance due to two key advantages: choice and portability.

Choice

With individual health insurance, your employees choose the plan and provider network that best fit their families' needs, rather than having to choose between the one group plan you offer them or nothing. Purchasing individual health insurance is easier than ever, 12 and employees have plenty of options to choose from. There are four standard levels of individual health policies, called metallic tiers. Within each tier, the employee chooses their policy by insurance company, doctor network, and coverage. All individual policies on the marketplace will cover pre-existing conditions regardless of metal tier.

Portability

Individual health policies are, by definition, not tied to a person's employment. That means your employees will keep their health insurance even if they leave or lose their job without having to pay out the nose for COBRA coverage. This is especially valuable if an employee or an employee's family member has a chronic medical condition.

	Group health insurance	Individual health insurance
Employees keep their policy when they switch jobs	No, unless they pay the entire unsubsidized premium themselves through COBRA	Yes
Employees choose their coverage and doctors	No	Yes
Premium tax credits available	No	Yes
Coverage for pre-existing medical conditions	Yes	Yes
Coverage for essential health benefits	Yes	Yes
Who pays for the policy?	The organization purchases the policy. Employees reimburse the organization via their paycheck	Employees purchase the policy. The company can reimburse employees via a QSEHRA

Will a QSEHRA work for my organization?

Whether your organization currently offers health benefits or not, you should ask yourself the following general questions before proceeding with the QSEHRA. If you answer “yes” to these questions, the HRA might be a terrific fit:

- Does your organization have fewer than 50 employees?
- Do you have money to spend on employee health benefits?
- Do you want to help your employees with their healthcare expenses?
- Do you want to grow or maintain your organization’s size?

How to set up a QSEHRA

Once you've decided a QSEHRA is a good fit for your organization, you're ready to begin implementation. In this section, we will walk you through how to plan for and implement a QSEHRA.

First, work through the following seven steps with the health benefits stakeholders at your organization.

We will use the planning worksheet in the list to further organize the details.

1. Pick a start date
2. If you have a group policy, set a cancellation date
3. Decide who will be eligible
4. Determine a budget and set allowances
5. Establish legal plan documents and compliant administration policies and procedures
6. Communicate your new benefit to employees
7. Provide resources to help employees buy individual health insurance

(Find a QSEHRA planning worksheet at the end of this section)

1. Pick a start date

The first step is to pick a start date, or plan effective date. This is the date your QSEHRA will begin. If you don't have a health benefits plan in place, you can start immediately; however, if you have an existing group health insurance policy that needs to be canceled, we recommend delaying the start date of your HRA to give employees time to purchase new individual coverage.

2. If you have a group policy, set a cancellation date

If you have an existing group health insurance policy, you will need to set a cancellation date for existing coverage. We recommend setting a cancellation date the day before your HRA start date and communicating the change to employees 60 days in advance of the cancellation date. This will give employees ample time to avoid a gap in coverage as they shop for new individual health policies.

Tip:

Canceling your existing group health insurance policy is surprisingly easy. Group policies are "unilateral contracts," which means you can cancel at any time with little or no notice.

While some insurance carriers request 30 days' notice, this is not always required—call a customer representative with the insurance company to confirm the exact steps required to cancel. Your health insurance broker can assist you; however, your organization must notify the insurance company directly. When you cancel your group policy, you trigger a qualifying event, which makes covered employees eligible to purchase a new individual health insurance policy immediately.

Tip:

Health insurance brokers make commissions on the policies they sell. When you inform your existing broker that you intend to cancel coverage, be prepared for the broker to fight to keep your business.

3. Confirm who will be eligible

Next, you need to decide who will be eligible for your QSEHRA.

Employers using a QSEHRA must offer it to all full-time W-2 employees. You can also offer it to part-time employees, but you must offer the same monthly allowances to part-time employees as you do to full-time employees.

4. Determine a budget and set allowances

Next, determine a budget and set monthly allowances—the amount of money eligible employees have access to each month.

You can vary the monthly allowance based on employee family status. There are two allowances you can offer:

- Self only, for single employees with no dependents
- Family, for employees who are married, have dependents, or both

Highlight:

"If you're using a QSEHRA, you only pay money out if and when employees submit qualified healthcare expenses"

With a QSEHRA, your organization has more control over its health benefits costs. There is no minimum allowance, and you can contribute up to the federal cap of $5,300 annually for the self-only allowance and $10,700 annually for the family allowance. Within that range, the budget is up to you.

Tip:

When setting your monthly allowances, it's a best practice to calculate the maximum amount you can afford to allocate within the federal caps. This will give the best benefit possible to employees, and any unused funds stay with your organization at the end of every year.

Remember, if you're using a QSEHRA, you only pay money out if and when employees submit qualified healthcare expenses. The real annual cost of your HRA will depend on how much of their allowances your employees use. For example, if your organization is making available $100,000 in allowances annually and employees use only 80 percent of the allowances by the end of the year, your organization's annual cost will be $80,000; your organization gets to keep the remaining $20,000.

5. Establish legal plan documents

Federal regulations require employers offering a QSEHRA to establish and maintain written plan documents. These documents define critical policies and procedures, such as which expenses are eligible for reimbursement, monthly allowance amounts, and other important details about an organization's HRA administration.

Failure to establish proper plan documents could cost your organization tens of thousands of dollars per year in fines. Due to the complexity of these documents and the required policies and procedures, we recommend using an expert, like an HRA administration software provider or a lawyer, to create and maintain the plan documents.

Plan document requirements

- Name of the QSEHRA plan administrator
- Name of the HIPAA privacy officer
- Designation of any named fiduciaries
- A description of benefits provided
- The standard of review for benefit decisions
- Eligibility criteria (remember, all full-time, W-2 employees are automatically eligible)
- The effective date of participation (e.g., the first day of employment with the organization as a W-2 employee)
- Amendment and termination rights and procedures, and what happens to plan assets, if any, in the event of plan termination
- Rules restricting and regulating the use of protected health information (PHI)
- Plan for coordinating the HRA with other benefits
- Procedures for allocating and designating administrative

or documentation review duties to a QSEHRA third-party administrator (TPA) or committee
- How the QSEHRA is funded
- Information regarding the Employee Retirement Income Security Act (ERISA), HIPAA, and other federal mandates
- Internal and independent third-party appeals process for adverse benefit decisions

6. Communicate your new benefit to employees

Once you've created the plan documents, you're ready to tell your employees about your new QSEHRA. ERISA requires you to create a Summary Plan Description (SPD) of the QSEHRA and furnish copies to each eligible employee. This document is the primary vehicle for informing employees and their families about their rights and benefits under the HRA.

In addition to meeting the minimum legal requirements, you should provide your employees clear, detailed guidance on how the QSEHRA works. The greatest value of your benefits offering is its ability to help your organization hire and keep talented employees. If your employees aren't using their benefits due to confusion, your organization isn't receiving that value.

Tip:

The information you provide to employees should include their annual QSEHRA allowance amount, how to correctly apply for premium tax credits, and how minimum essential coverage affects the way employees receive their benefits.

QSEHRA implementation planning worksheet

QSEHRA start date:				
Cancellation date:				
Eligibility	**Monthly allowances**			
Part-time employees eligible?	**Single**	**Single with dependents**	**Married**	**Married with dependents**
Y / N				
Start date: When would you like the plan to start? This is your plan effective date. Cancellation date (if applicable): What date will you cancel your existing group policy? Write N/A if this does not apply. **Part-time eligibility:** Who will you offer the HRA to? You can offer the benefit to all W-2 employees, or to full-time employees only. **Monthly allowances:** How much would you like to allocate monthly, by family status?				

(See next page for frequently asked questions)

Frequently asked questions	
Which employees are eligible?	All full-time W-2 employees are eligible to participate, and you can choose whether to include part-time W-2 employees.
Can an owner participate?	Only C-corp owners who are W-2 employees are eligible.
When can I reimburse my employees?	After an expense is verified as eligible for reimbursement.
How do I reimburse my employees?	You can reimburse employees via the method of your choice—payroll, check, or cash.
What can I reimburse employees for?	Premiums and out-of-pocket expenses See a full list of IRS 502 eligible expenses.
How do I get this information in my payroll software/to my payroll company?	You can create a nontaxable payroll line item through your payroll company. Simply add a new payroll item, set it to be nontaxable, and add it to each employee's record. You will then be able to add an amount on each employee's paycheck. The payroll line item is generally described as a reimbursement, non coded or miscellaneous, addition to net income, or nontaxable.
When and how do I add new employees?	New employees become eligible on their start date. Add their name, contact information, job title, and direct manager to an enrollment form.

7. Help employees buy individual health insurance

Because health insurance has traditionally been provided by the organization, this will be the first time many of your employees will be responsible for choosing their own policies. For most, this is a daunting experience—health insurance policies are complicated, full of specialized language, and difficult to compare. As a result, many of your employees will want help shopping for an individual health insurance policy.

To show your interest in their success with the QSEHRA, you should be prepared to provide that assistance.

Highlight:

"Health insurance policies are complicated, full of specialized language, and difficult to compare. As a result, many of your employees will want help shopping for an individual health insurance policy"

Here are some simple ways to help:

- Encourage employees to use a broker. They're free and can help them through the entire shopping process.
- Aggregate materials and resources for employees to do their own education and research.
- Reach out to your employees to make sure they understand their situation and are getting the help they need. Follow up regularly, especially as employees get close to the end of their special enrollment period.
- Partner with an administration software provider that has shopping tools and health insurance concierge services built into their product.

Tip:

Remember that under federal guidelines, your organization cannot be involved in an employee's decision to purchase an individual policy or their decision of which insurer or policy to use. With a QSEHRA, your organization must limit its role to simply verifying that an employee incurred an insurance or medical expense and then reimbursing the employee. employers are encouraged, however, to provide employees with tools to educate themselves.

How to communicate a QSEHRA to employees

One of the most important parts of implementing a QSEHRA is how you communicate the new benefit to your employees. Since most of them will likely have never heard of the QSEHRA before, you may have to overcome some initial uncertainty.

If you successfully communicate the benefits of individual health insurance and the reimbursement model to your employees, however, they will appreciate their new QSEHRA and know exactly how much your company contributes toward their health insurance and medical expenses.

Communicate early and often

It's vital your organization is prepared to educate your employees quickly and transparently. During your initial communication, your organization should be clear that by offering a QSEHRA, you're giving employees access to better benefits by providing them with the opportunity to choose their own individual health insurance policies or giving those in alternative coverage situations tax-free money for out-of-pocket expenses.

Tip:

Your QSEHRA administration tool should provide you with all necessary employee communication materials.

There are numerous ways to educate employees, including:

- Brochures or handouts
- Emails
- All-staff presentations or trainings
- One-on-one meetings

Good communication will answer the following questions:

- What is a QSEHRA and what is individual health insurance?
- How does a QSEHRA work and how do employees purchase individual health insurance?
- Where do employees go for help with purchasing an insurance policy?
- When will the HRA start?
- Why is the organization making this change?

Tip:

Use the following example communications to create an employee letter or presentation slides. Customize the reasons your organization is choosing a QSEHRA and the benefits most important to your workforce.

If you decide to hold an in-person meeting, here are a few ways to simply explain the QSEHRA's value to employees:

- "Your new health insurance will be portable, which means you won't lose it if you leave the organization. You'll also be able to choose between a number of different policies, and your final decision will be up to you, not the organization."

- “Since you’ll choose your own policy, you can pick one that includes your doctor and prescriptions instead of hoping a group policy covers them.”
- “Your allowance is completely tax-free, so the amount we’re giving you is the amount you can spend. It will not be reported as income or affect your taxes if you have minimum essential coverage (MEC).”

Provide a custom employee welcome letter

Once you’ve announced the transition, regulations require you to provide every employee with a custom welcome letter notifying them of their eligibility, allowance amounts, and benefit start date. If you’re using a software provider to help administer your QSEHRA, they should take care of this step for you.

Employee welcome letters should provide clear instruction on how to use the QSEHRA administration tool, if you’re using one, and how it benefits employees.

How to choose a QSEHRA administration tool

While it’s possible to self-administer your QSEHRA, most experts don’t recommend it. Many employers that self-administer a QSEHRA overlook important compliance obligations, which puts them at financial risk. Failure to comply with certain federal requirements is common and can be costly.

Tip:

An HRA administration tool will help you to establish a formal QSEHRA plan to ensure compliance, save time, and create a powerful tool to help your organization hire and keep your employees.

A good administration tool will help you avoid compliance problems. The right provider will:

- Update legal plan documents automatically whenever QSEHRA regulations change
- Allow your organization to administer your HRA online
- Easily record reimbursements that were added to payroll
- Instantly update plan documents whenever you make a change to your benefit's plan design while giving employees the required amount of notice

Features to look for in a QSEHRA administration tool

There are several important features a QSEHRA administration tool should provide your organization. When you're evaluating a prospective tool, look for the following functionalities.

1. Automated compliance and software updates

Your administration tool should keep your benefit plan up-to-date and compliant with applicable rules and regulations as they change by including, at minimum, the following:

- [ ] Legal plan document and SPD
- [ ] No-cost updates to legal documents if regulation requirements change
- [ ] Electronic enrollment signatures
- [ ] Verification and HIPAA privacy compliance
- [ ] ERISA compliance
- [ ] Internal and external documentation appeal process
- [ ] Dependent coverage for adult children up to age 26
- [ ] Notice requirements

- **Legal plan document and SPD.** As required by ERISA, a QSEHRA must be governed by a written plan document and SPD. These documents define which expenses are eligible for reimbursement, the allowance amounts, and other plan details (see page 21 for a full list). Your administration tool should create a custom plan document and SPD that automatically update with plan changes. This will save you time, hassle, and the significant expense needed to find and retain an ERISAspecialized attorney to draft and maintain customized documents.
- **No-cost updates to legal documents if regulation requirements change.** Things change. Such is life. If QSEHRA regulations change, you shouldn't be penalized by having to pay to update your legal documents. Look for a software solution that will update these for you for free.
- **Electronic enrollment signatures.** When your employees have received the plan document and SPD, your administration tool should collect and store electronic enrollment signatures.
- **Verification and HIPAA privacy compliance.** Before a medical expense can be reimbursed through the QSEHRA, an employee must submit documentation verifying that they have incurred a qualified medical expense. The information proving the expense is considered PHI and needs to be treated in accordance with HIPAA Privacy Rules. An independent third party should review all reimbursement requests to prevent exposure to employee PHI. Once the documentation review is complete, the administration tool should securely store the documents for a minimum of seven years. All PHI that is electronically submitted must be encrypted both in transit and in storage.
- **ERISA compliance.** When an organization offers a QSEHRA, ERISA law requires the organization to document and comply with certain requirements. Among others, these requirements address nondiscrimination, administrative procedures, and employee rights under the plan. Your administration tool should document and enforce these accordingly.

- **Internal and external documentation appeal process.** The ACA added new appeal requirements, including notifications and procedures. Your plan document should include all required language and establish the reimbursement request process to comply with these requirements.
- **Dependent coverage for adult children up to age 26.** The QSEHRA must make coverage available for dependent children until age 26. This stipulation must be in the plan document.
- **Notice requirements.** You must provide notice to participants of their eligibility and annual HRA allowance when the organization starts a QSEHRA. Your administration tool should automate these communications to the eligible employees.

2. Employee tools and resources

Your administration tool should make it easy for employees to purchase health insurance and request reimbursement for individual insurance and medical expenses.

It should provide resources including:

- [ ] Employee welcome letter
- [ ] Health benefits advisor
- [ ] Online access and balance tracking
- [ ] HSA compatibility
- [ ] Easy reimbursement requests
- [ ] Fast,guaranteed documentation review turnaround time
- [ ] Reimbursement of large expenses over time

- **Employee welcome letter.** When employees are added to the QSEHRA, your administration tool should automatically customize and distribute employee welcome letters. These welcome letters instruct employees on how to use the QSEHRA.
- **Health benefits advisor.** Your administration tool should provide employees with online access to individual health insurance resources. You should have the option of directing employees to a health insurance broker or a website for health insurance information. The software should not restrict employees from purchasing individual coverage from any source, whether through a broker, through the health insurance Marketplace, or directly from an insurance company. Look for an administration tool that helps employees shop for and purchase individual health insurance policies, ideally directing employees to a designated broker or online comparison site for quotes.
- **HSA compatibility.** Your administration tool should be compatible with health savings accounts (HSAs), allowing employees to contribute to an HSA while participating in your QSEHRA. Even better, your administration tool should have relationships with top HSA providers to help employees open an HSA.
- **Online access and balance tracking.** Your administration tool should provide each employee with secure online access to view their allowances and expenses and to request reimbursements. It should also provide access to the required plan documents.
- **Easy reimbursement requests.** Your administration tool should allow employees to request reimbursement online and immediately acknowledge their request and provide a link to monitor request status. The software should have all documentation permanently available for convenient employee access.

Highlight:

"Employees should be able to inquire about their request online, through email, or by telephone.""There is a better way for your organization to provide employee health benefits"

- **Fast, guaranteed documentation review turnaround time.** Your administration tool should guarantee a timeframe for reviewing employee reimbursement requests so your employees aren't left in limbo wondering about their reimbursement status. Employees should be able to inquire about their request online, through email, or by telephone. If an expense isn't verified, employees should receive information explaining why and how to correct the issue.
- **Reimbursement of large expenses over time.** Your administration tool should make it easy for employees to track reimbursement requests and balances. If an employee's reimbursement request exceeds their balance, they should receive partial reimbursements until the entire expense has been reimbursed instead of having the expense rejected.

3. Organizational tools and resources

Your organization must designate someone as plan administrator for your QSEHRA. The plan administrator will be responsible for recording reimbursements, accessing reporting tools, and managing employee enrollment. Your administration tool should ensure your organization's plan administrator receives proper training with access to resources such as whitepapers, eBooks, webinars, and online tools.

Tools in the software should include:

- [ ] Online administrative access
- [ ] Intuitive dashboard and user experience
- [ ] Streamlined employee enrollment
- [ ] Employee reimbursement and recordkeeping
- [ ] Automated renewals

- **Online administrative access.** Your organization should be able to manage the entire QSEHRA online. The cloud-based software should allow your plan administrator to easily add and remove employees, modify plan rules, record reimbursements, and access reporting tools.
- **Real-time accounting.** Your administration tool should automatically keep track of monthly allowances, verified expenses, reimbursements, and balances. It should provide real-time access to accounting details, including total allowances, total reimbursements, and outstanding liability to the organization in aggregate and on an employee-by-employee basis.
- **Streamlined employee enrollment.** Your administration tool should allow for easy employee management. It should automatically email a welcome letter and other plan administration information. For terminated employees, the system should automatically track a run-out period and notify the employee they've been removed.
- **Employee reimbursement and recordkeeping.** Your administration tool should allow the plan administrator to record reimbursements individually or on a periodic batch basis. Reimbursements are paid via check or payroll. The system should leave a well-organized and permanently available audit trail. Additionally, it should send email notifications to employees when their reimbursement request is approved, and again confirming when (and how) it will be reimbursed.
- **Automated renewals.** One of the benefits of a QSEHRA is eliminating the labor-intensive annual renewal process of traditional group policies. Your administration tool should allow you to automatically renew online. There should be no paperwork required and no renewal fees. The process should be quick and easy for the plan administrator, and it should not affect employees.

Highlight:

"One of the benefits of a QSEHRA is eliminating the labor-intensive annual renewal process of traditional group policies."

Conclusion

Group health insurance is too expensive for most small employers. Yet without a benefits plan, your organization stands to lose its best employees—as well as a great deal of time trying to hire future employees who may pass on your offer for one with better benefits.

Thanks to the QSEHRA, your organization no longer has to choose between these two undesirable outcomes. Now you can offer simple, compliant, and personalized benefits for a cost that your organization can set and never exceed.

With this guide as a resource, you'll be able to set up and administer simple benefits that will provide value to your small organization for years to come.

Interested in seeing how our QSEHRA software works?

Watch our free, on-demand demo of our software to see if a QSEHRA with PeopleKeep will meet your organization's health benefits needs.

WATCH DEMO

About PeopleKeep

PeopleKeep helps small employers offer competitive benefits at a price they can afford. Personalized benefits automation software from PeopleKeep allows businesses to manage their benefits in minutes per month. PeopleKeep automates benefits compliance and employee support. Employees receive tax-advantaged reimbursements to pay for health insurance and other medical, dental, and vision expenses. Today more than 3,000 companies across the United States trust PeopleKeep to automate their benefits and keep employees happy. PeopleKeep is based in Salt Lake City, Utah.

To learn more about PeopleKeep, visit www.peoplekeep.com