

The QSEHRA: Annual Report 2019



Our story

Traditional group benefits are too expensive, too complex, and too one-size-fits-all. PeopleKeep is a new way to offer benefits called personalized benefits. Most people believe benefits are the services a company offers, such as a health insurance plan or 401k. With personalized benefits, it's the opposite. Companies give people tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. For small businesses that can't or don't want to offer traditional group benefits, PeopleKeep is personalized benefits automation software that makes offering benefits simple, painless, and personal for everyone.

Today more than 3,000 companies use PeopleKeep to hire and keep their people across the United States. PeopleKeep is based in Salt Lake City, Utah.

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



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Introduction

Small businesses face significant challenges when it comes to offering employee health benefits. Traditional options, like group health insurance, grow increasingly out of reach as costs continue to rise.

To combat these difficulties, more and more small organizations are turning to an alternative health benefit: the qualified small employer health reimbursement arrangement (QSEHRA).

Created by the federal government in 2016, the QSEHRA allows small businesses, nonprofits, religious organizations, and other groups with fewer than 50 employees to reimburse workers tax-free for health care expenses.

2018 marked the second full year of QSEHRA availability. During that time, increased focus on health benefits—and on HRAs in particular—spurred greater awareness of the QSEHRA, and the market expanded. At the same time, those organizations with an existing QSEHRA made small changes to allowance amounts to provide greater value to employees.

The PeopleKeep 2019 Annual Report uses customer data to examine these and other trends in the use of the QSEHRA in 2018, including how businesses administered the benefit and how employees used it.

The report is based on a sample of 1,387 businesses and 8,290 eligible employees using PeopleKeep software to administer a QSEHRA during the 2018 calendar year.

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Key findings

Organizations improve employee value by offering higher QSEHRA allowances in 2018.

Small businesses using the QSEHRA in 2018 offered an average monthly allowance of \$297 for single employees and \$452 for employees with a family.

These organizations offered twenty-six percent of single employees and 10 percent of employees with a family the maximum monthly allowance amounts of \$420.83 and \$854.16, respectively.

These average allowances represent increases of 6 percent and 7 percent, respectively, among QSEHRA users since 2017. The percentage of employees receiving the maximum allowance contribution, meanwhile, was relatively static.

Allowances were affected by a number of considerations, including business size and industry.

By business size, organizations with fewer employees tended to offer larger allowance amounts. Those with fewer than 10 employees offered averages of \$299 for single employees and \$452 for employees with a family, for example, compared to organizations with more than 25 employees, which offered an average \$264 for single employees and \$406 for employees with a family.

Allowance amounts by company size



By industry, organizations in the technology, accounting, and legal sectors offered employees the highest allowance amounts. However, single employees in the construction space and employees with a family among religious organizations also received allowances considerably higher than average.

The highest allowance amounts for single employees appeared in technology (\$351), accounting (\$317), legal (\$308), construction (\$304), and religious organizations (\$280). For employees with a family, the highest allowance amounts were offered in the religious (\$597), technology (\$543), legal (\$469), accounting (\$445), and construction (\$396) sectors.

Highest allowance amounts by industry



Technology

👤 \$351 | 👨‍👩‍👧 \$543



Accounting

👤 \$317 | 👨‍👩‍👧 \$445



Religious organization

👤 \$280 | 👨‍👩‍👧 \$597



Legal

👤 \$308 | 👨‍👩‍👧 \$469

Employees use nearly 80 percent of their QSEHRA allowances, and 1 in 3 use their full allowance.

It's just as important to consider how the employees used the QSEHRA as it is to consider how businesses used it.

With a QSEHRA, employees can be reimbursed for all items listed in IRS Publication 502, including individual health insurance premiums; individual dental, vision, or long-term care insurance premiums; copays; deductibles; and prescription and nonprescription drugs.

In 2018, employees used an average 78 percent of their available QSEHRA allowance—about on par with 2017’s 77 percent utilization rate.* A third of employees used all of their allowance.

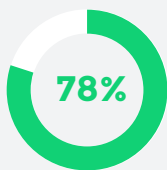
**The sample size for utilization rates includes only employees who submitted at least one item for reimbursement through their QSEHRA.*

Insurance premiums remain the most popular—and costly—employee expense.

Perhaps unsurprisingly, individual insurance premiums claimed the largest portion of employees’ allowances. Thirty-eight percent of employees had an insurance premium reimbursed through the QSEHRA, which claimed an average 80 percent of their allowance. A full 54 percent of employees spent all of their allowance on insurance premiums.

Many employees used the QSEHRA differently, however. Because many employees have health insurance coverage through a spouse’s or a family member’s employer-sponsored group policy, these employees frequently used their QSEHRA allowances exclusively for nonpremium items.

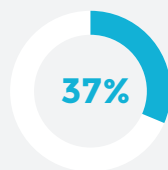
Employee utilization



of individual allowances were used by employees in 2018.



of employees used their allowance on premiums.



of employees used their allowance on other, nonpremium expenses.



of employees used their allowance on both.

Thirty-seven percent of employees had these nonpremium items reimbursed through the QSEHRA, requesting reimbursement for an average 12 items during 2018 (though this number increased with the employee's number of dependents).

The most popular nonpremium items reimbursed through the benefit were:

- Medical office visits (requested by 51 percent of employees)
- Prescription drugs (43 percent)
- Dental care (40 percent)
- Eyeglasses (28 percent)
- Chiropractic care (21 percent)

Twelve percent of employees used their QSEHRA to reimburse both premium and nonpremium expenses.

Conclusion

In 2018, small businesses continued to use the QSEHRA to offer high-quality health benefits to their employees—they even increased their contributions through the benefit to deliver greater employee value.

Employees took advantage of that value by using the vast majority of their QSEHRA allowances. They used the benefit for themselves and their families and sought reimbursement for critical medical expenses, including insurance premiums, medical visits, prescription drugs, and dental care.

These findings reinforce the QSEHRA's unique utility as a balance between cost savings and value to employees. They also lay the foundation for a future in which the QSEHRA—and HRAs in general—play a much greater role in the health care benefits space.

Appendix

How the QSEHRA worked in 2018

In 2018, the QSEHRA followed a simple four-step structure outlined by the federal government:

- 1. Businesses set a monthly allowance.** In 2018, businesses could provide up to \$5,050 a year (\$420.83 a month) to single employees and \$10,250 a year (\$854.16 a month) to employees with a family.
- 2. Employees make purchases.** Employees with a QSEHRA can purchase and receive reimbursement for many expenses, including individual health insurance premiums; individual dental, vision, or long-term care insurance premiums; copays; deductibles; and prescription and nonprescription drugs (with a note from a doctor).
- 3. Employees submit proof of expenses.** After making an eligible purchase, employees submit documents that show a description of the product or service, the cost of the expense, and the date they incurred the expense.
- 4. Businesses review and reimburse employees' expenses.** All approved requests are reimbursed tax-free up to the employees' allowance amount. Reimbursements made through a QSEHRA are free of payroll tax for the business and its employees. Reimbursements can be free of income tax for employees, too, if the employee has minimum essential coverage (MEC).

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