Employee Benefits Report

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HRA Changes That Affect Your Employees

A new law, along with rules governing Health Reimbursement Arrangements (HRA) affects the type of health care benefits you can offer your employees.

HRAs are employer-funded, tax-advantaged employer health benefit plans that help employees pay for out-of-pocket medical expenses and health insurance premiums.

Small Business HRA/QSEHRA

A new law created a Small Business HRA, also known as a Qualified Small Employer HRA (QSEHRA), provides a way for small businesses that don't offer group health plans to fund HRAs for employees who purchase individual health insurance plans.

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The Real Cost of Benefits

When employees look at their paycheck stubs, they probably only focus on their wages. As an employer, you know there's much more to the picture. To find out how the benefit and wage package you provide stacks up with the national average, check the quarterly U.S. Bureau of Labor Statistics' report: "Employer Costs for Employee Compensation."

The most recent report reveals that costs for total employee compensation averaged $35.28 per hour. Of that amount $24.10 was for salary and $11.18 was benefits.

Averages were based on compensation costs for 15 areas ranging from $28.20 per hour for the Miami area to $53.61 for San Francisco.

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The HRA provision is part of the 21st Century Cures Act, signed into law by President Barak Obama in December 2016. The law primarily focuses on accelerating drug approvals and making innovative treatments more accessible. The law also overturns Internal Revenue Service and Department of Labor regulations penalizing small employers who provide HRA benefits. Employers with fewer than 50 full-time employees or equivalents can now fund employee HRAs if they don't offer health coverage.

If an employer decides to offer a QSEHRA, it must offer them to all qualifying full-time employees. Exceptions are part-time or seasonal workers; employees who have not completed 90 days of service; employees who are younger than 25; or employees who are covered under a collective bargaining agreement for accident and health benefits.

Employers currently are limited to offering $4,950 HRAs for single coverage and $10,000 HRAs for family coverage. Contributions to the accounts should generally be equal, although there is some room for variance based on the price of an individual health insurance policy and factors such as the age of the employee, number of eligible family members, and other factors. Amounts are pro-rated for partial year coverage and indexed in future years.

Chatrane Birbal, senior advisor for government relations at the Society for Human Resource Management, applauds the new law.

"This change provides small employers greater flexibility in terms of benefit offerings and allows eligible employers to use HRAs to help employees purchase an affordable health insurance plan that fits their individual budget and health care needs," Birbal said.

The timing of the law, however, made it too late for many employers to take advantage of the provision in 2017. Employers are being urged to start planning now to take advantage of this option for 2018.

Experts believe the new law could provide positive benefits for the estimated 2 million employees who currently don't get employer-sponsored coverage. However, there is concern that many small employers might drop health care coverage and only fund an HRA.

If you're an employer already offering health insurance to your employees, there are some updates to laws this year governing HRAs you need to know.

The rules were provided in Notice 2015-87 and generally became effective for plan years beginning on or after Dec. 16, 2015. Due to transition relief, many of the rules didn't take effect until this year. You should work with your broker to ensure your HRA and group health insurance policies meet all Affordable Health Care Act (ACA) reform requirements.

Integrated HRA

An Integrated HRA — also known as a Deductible-only HRA, Linked HRA, or Group HRA — is an HRA linked to a high-deductible group health insurance policy. Your contributions to an Integrated HRA count as part of an employee's required contribution. They also work to ensure your group health plan is "affordable," according to ACA regulations. Employer contributions must be determined within a reasonable time before the employee is required to make a decision whether to enroll in your group health plan. Employees can use the HRA to pay for health insurance premiums, cost-sharing (deductibles, co-insurance and copays) and/or benefits not otherwise covered, like dental or vision services.

Health insurance costs average about $2.50 per hour, although health insurance benefits for union workers are higher at $6.09 per hour.

According to Joe Hadzima, a senior lecturer for the MIT Sloan School of Management, typical costs for an employee making a $50,000 annual salary could total $62,500 to $70,000, when you include employment taxes and benefits. The estimate includes $150 in life insurance; $2,000 to $3,000 for single health insurance or $6,000 to $7,200 for a family; $250 for long-term disability insurance; and $240-$650 for dental plans. This doesn't include 401(k) savings plans.

Retiree HRAs

If an HRA covers both current employees and retirees, the retirees cannot use the money to pay for premiums. However, if the HRA is a retiree-only HRA, they can use the funds to pay for the cost of their individual health coverage. This pertains even if the balance available in the HRA was rolled over from another employer-sponsored HRA that the retiree participated in. Unused amounts

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that remain in a current-employee HRA, and which are not rolled over into a retiree-only HRA when an employee retires, may only be used to reimburse expenses for retiree group health insurance coverage.

Self-Only Health Plan Coverage and HRAs

According to Notice 2015-87, Q&A 4, an HRA is integrated with an employer's group health plan coverage for purposes of the application of the ACA insurance market reforms "only as to the individuals who are enrolled in both the HRA and the employer's other group health plan." Thus, the level of coverage that an employee elects under an integrated HRA, i.e., self-only, self + one, family, etc., must match the level of coverage under the group health plan with which the HRA is integrated. An employee with self-only health coverage and integrated HRA can no longer use the HRA to reimburse the expenses of spouse and dependents. Employees can only use the HRAs to reimburse premiums and accepted benefits, such as dental and vision for themselves.

Please contact us for more details on implementing these changes to your plan. ■

Four Questions to Ask Before Purchasing Dental Insurance for your Employees

If you're a small employer with 50 or fewer employees, you might be wondering what benefits you need to provide to attract and keep valuable talent. You want to offer attractive benefits on a cost-effective, sustainable basis for yourself, your family and your employees. Health care benefits are expected and often mandatory, but are dental benefits worthwhile?

A 2015 Glassdoor study found that health, dental and vision insurance topped the list as benefits employees feel would affect their decision to accept a job offer.

Before you decide to add dental benefits to your employees' wage and benefit package, it pays to first ask these questions:

Q Am I legally required to offer my employees dental coverage?

A You're not legally required to offer dental coverage, although many companies do because it enhances their benefits package.

Q What are the different types of dental coverage?

A Like a health benefit plan, most dental plans require you to choose a provider network. Each network has a list of doctors that members are required to see to get the contracted discount. Your options include:

- **Dental Health Maintenance Organizations (DHMO)** have the lowest premiums and are similar to a Health Maintenance Organization (HMO). Members must choose a provider in the network for exams and treatments to be covered, but there is no limit to the number of services they can receive. They also need a primary in-network doctor or dentist to provide referrals to see a specialist.
- **Dental Preferred Provider Organizations (DPPO)** cost more than a DHMO, but have a larger network. Members can see a doctor who is out of network, but it will cost more.

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Members usually have to meet a deductible before a carrier shares costs. No provider referrals are needed to see a specialist.

- **Participating Dental Networks (PDN)** are a hybrid of a DHMO and DPPO. They have a smaller network than DPPOs, but premiums are lower.
- **Dental Indemnity Insurance Plans** do not have a network and members can see any dentist. They also have the highest premiums. The carrier covers a set amount for each procedure and members must pay the rest of the bill. There are also deductibles that must be met and copayments similar to a DPPO.

Q What other factors affect costs for me and my employees?

A Plan costs vary depending on levels of coverage:

- **Full coverage** provides annual or biannual cleanings/exams and a small percentage of major dental procedures, such as a root canal, or minor procedures, such as filling a cavity.
- **Minor coverage** provides annual or biannual cleanings/exams and partial to full coverage of minor procedures, such as filling cavities. This option doesn't cover major procedures.

Plan costs for you and your employees will depend on the type of coverage you choose and how much of the premium you decide to pay for. Your options include:

- **Paying 100 percent** of the costs if you decide to choose a fully funded plan.
- **Paying about 80 percent** of the costs with a partially-funded plan; employees pay the remainder.
- **Paying nothing** – employees are responsible for the entire cost of the premiums, while you would cover administrative costs and payroll deductions.

Dental experts estimate that most small employers, who cover 75 percent of employee costs for individual coverage, will probably pay about $25 - $50 each month per person.

Q Who can provide me with advice and coverage?

A If you're interested in offering coverage to your employees, please let us know. We will interview you about your financial resources; show you policy options; customize a plan to meet your needs; keep your plan current on changing regulations; and handle policy renewals. ■

Ways to Help Your Employees Have a More Secure Retirement

Have your employees saved enough for retirement? The Internal Revenue Service (IRS) says an individual could easily spend 30 years or more in retirement, and to retire comfortably could need up to 80 percent of their annual income.

Unfortunately, a recent CNN Money report found that nearly half of those surveyed had only saved $25,000 — even though most people believe they'll need at least $500,000 to retire. The average Social Security benefit check is only $1,200 per month, so many retirees could find themselves in dire straits.

Savings Add Up

The upside to the savings dilemma is that the sooner saving begins, the easier it will be to grow a sizeable nest egg. For instance, by saving $50 per month for 20 years, an individual could have $23,218 half way through their working career. However, if they were able to increase that to $500 per month for 20 years, their nest egg would skyrocket to $232,176 and increase even more the next 20 years.

What You Can do to Help

One of the easiest ways for an employee to save money is through an employer-sponsored retirement plan.

If you want to sponsor a plan, the IRS recommends you follow these four stages – choose, establish, operate and terminate.

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Choose – Hire a financial advisor or retirement planning company to decide what your options are — including tax-qualified plans. With a tax-qualified plan, contributions are not taxed until the individual withdraws the money.

One of the most popular employer-sponsored, tax-qualified plans is a 401(k). The employee decides how much to contribute each month, with the money automatically withdrawn from their paycheck. Many employers choose to match funds. If you matched 3 percent of the contributions of an employee making $60,000 annually, you would be adding an additional $1,800 to their retirement savings annually. That incentive is enough to convince many workers to contribute at least enough money to qualify for matching funds.

Automatic enrollment — whether in a 401(k) or other retirement plan, is an easy way to ensure that all employees participate. Many people believe medical bills, mortgages and other expenses make it hard to save enough for retirement. With automatic enrollment, you choose a default rate that will automatically be taken out of everyone's paycheck — and then gradually increase that amount to 10 percent. Remember that many employers start the default rates too low. If you go with this option, advisors recommend starting at 6 percent.

Establish – Once you choose a plan, arrange a fund for the plan's assets; inform employees about their options; and develop a good record keeping system.

Operate – To ensure your plan continues to operate profitably and complies with federal guidelines, make sure all eligible employees receive the opportunity to participate; that regular contributions are made; that the plan follows laws; and that the assets are handled properly.

It's also important you offer tools that employees can use to determine if they're saving enough. Online calculators — often provided by your broker's company — make it easy for employees to see if their savings plans need adjustment.

Make it a priority to educate employees about the importance of savings and urge them to save at least 10 percent to maximize their savings.

Terminate – You can make the decision to close out the plan or switch to a new plan if you find it no longer fits your company's and employees' needs.

Employee Benefits

Here are more reasons employees receive benefits from an employer-sponsored plan:

- Contributions and investment gains are not taxed until distributed.
- Interest on retirement savings compound, with regular contributions growing significantly.
- Retirement assets can be carried from one employer-sponsored plan to another.

Employer Benefits

- Contributions to an employee's retirement plan are tax-deductible.
- A good retirement plan can attract and retain better employees, and reduce training costs.
- In years past, employees retired at age 65 or younger. Many now wait until age 70 or older because they haven't saved enough. Since older workers usually cost more than younger workers due to higher salaries and higher group health plan costs, helping them save early for retirement may cause them to move into retirement sooner.

By planning ahead and saving, an employee can leave when they want, not when they have to because of finances. Please contact us and let us help you set up a retirement plan for your employees.

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GOP Proposal to Tax Employer Health Plans - Pros and Cons

Estimates show that almost half of American private sector employers offer health care insurance to their employees. The Kaiser Family Foundation says the percentage ranges from a low of 34 percent in Idaho to a high of 70 percent in the District of Columbia. The practice is popular because the benefits are exempt from federal, state and city taxes and employers can deduct 100 percent of the costs.

Senate Republicans, while writing an Affordable Care Act (ACA) replacement bill, floated the idea of taxing employer-sponsored health benefit plans. Additional tax revenue from more than 177 million employees would most likely help stabilize the insurance market and bring in billions of dollars for tax reform. The Congressional Budget Office estimates that the federal government "lost" more than $250 billion in 2016 because of the exemption. This money is critical because the new health bill must achieve at least $119 billion in savings through the next decade in order for the bill to pass in the Senate by a simple majority.

The federal government approved the tax deduction for employer-paid health benefits during World War II after it froze salaries to avoid post-war inflation. The government intended the deductions as a temporary measure to give employers an incentive to attract qualified employees. The deduction proved so popular businesses pressured the federal government to keep them.

When House Republicans crafted their version of the ACA replacement bill earlier this year, they considered limiting the amount companies could exclude from employees' income for health coverage. Rep. Warren Davidson (R., Ohio) said the system distorts the market in favor of generous insurance packages. House Speaker Paul Ryan (R., Wis.) said the current system of tax cuts is unfair to individuals who must purchase coverage on their own. Republicans dropped the idea after facing strong business group resistance.

Experts are concerned that if the tax is implemented, employers will scale back benefits; or pass the cost of the taxes to employees by lowering wages or raises; or stop offering coverage all together. Employers may also decide to offer alternative incentives or increase wages rather than offering health plans. Right now the proposal seems unlikely to move forward. We'll try to keep you advised.