ATTENTION SMALL BUSINESS OWNER:

Defined Contribution Plans and Self-Administered HRAs:

# The New Solution To Small Group Health Insurance

## Discover A Strategy That Saves Small Businesses $8000+ Per Employee, Every Year!

*Attention Small Business Owner:*

# Defined Contribution Plans: The New Solution to Small Group Health Insurance

**Discover A Strategy That Saves Small Businesses $8000+ Per Employee, Every Year!**

**Legal Notice:**

While all attempts have been made to verify information in this manual, neither the author nor the publisher assumes any responsibility for errors, inaccuracies, or omissions. Any slights of people or organizations are unintentional. If advice concerning tax, legal, compliance, or any related matters is needed, the services of a qualified professional should be sought. This manual is not intended for use as a source of legal, or accounting advice.


**749 S Lemay Ave, Suite A3-116**
**Fort Collins CO 80524**
**www.HSAforAmerica.com**
**800-707-9849**

# Defined Contribution Plans For Small Businesses

The health care reform law now requires small business owners who carry group coverage to provide expensive government-approved health insurance that qualifies at the "bronze" level of benefits. As a result, many small businesses are dropping health insurance coverage altogether.

But a new, affordable way that small businesses are dealing with health insurance is through Defined Contribution plans. By reimbursing your employees for *individual* health insurance coverage instead of expensive group health insurance, you should be able to cut your health insurance cost in half. Employees end up with less expensive, permanent coverage that they can take with them if they ever leave the business.

The enactment of the new health care reform law is rapidly increasing the number of businesses using this strategy. That is because, starting in 2014, employees with health problems will be able to sign up for individual coverage regardless of pre-existing conditions. The law also offers large federal subsidies to individuals and families earning up to 400% of the federal poverty level (up to $88,200 for a family of four), as long as they are *not* offered employer-provided coverage.

## What Is An HRA?

A Self-Administered HRA is also known as a "defined health benefits plan", or a "defined contribution plan". It is simply an arrangement where an employer reimburses employees tax-free for qualified medical expenses, including health insurance premiums. HRAs are also known as Section 105 plans, named after the section in the U.S. Tax Code that governs them.

On June 26, 2002, the IRS issued Notice 2002-45 and Revenue Ruling 2002-41 that opened the door for employers to legitimately reimburse individual health insurance premiums to their employees as a tax-free fringe benefit. Since individual health insurance premiums can be up to 50% less than group health insurance premiums, employers by the thousands are dropping group health insurance and establishing HRA plans to allow employees to go out and buy their own coverage.

With an HRA:

1. Each employee receives a monthly allowance, such as $300 per month, from their employer for reimbursement of qualified medical expenses. Whatever is not spent accumulates for future use.

2. The employee submits claims to their employer's Plan Supervisor

3. The employee receives reimbursement for their approved claims, up to the amount of their HRA balance.

You as the employer have a lot of flexibility in setting up the account. You can set the minimum number of hours the employee must work each week, how old they must be, and how many months new employees must wait before being covered.

You also get to decide what you will reimburse. In addition to health insurance premiums, you could offer to cover term life insurance or dental coverage, maternity expenses, or other out-of-pocket medical expenses. You also establish the maximum amount in each category that you will reimburse.

Under a health reimbursement account, the employer provides funds, not the employee. When you set up the HRA, you get to decide whether or not to allow funds to roll over at the end of the year. If you like, you can choose to allow former employees, including retirees, to have continued access to unused reimbursement amounts.

Health reimbursement accounts remain with the employer and do not follow an employee to new employment, but the employee can take their individual health insurance plan with them.

## How An HRA Will Save You Money

According to recent surveys by the Kaiser Family Foundation, employer-sponsored health insurance costs an average of nearly $15,000 per year. By contrast, the average family policy through HSA for America costs less than $6000.

An HRA can be set up to cover health insurance premiums and other medical expenses that you designate. Let's assume that you agree to reimburse the following expenses:

| | |
|---|---|
| Health insurance premiums | $5000 |
| $100 deductible accident plan | $300 |
| Routine physicals and screening exams | $500 |
| Life Insurance Premiums | $500 |
| **Total Medical Costs** | **$6300** |

**If you have a section 105 HRA set up, the entire $6,300 would of course be considered a business expense[1].** It would also be considered to be a tax-free fringe benefit for your employee. So instead of spending $14000, in this example you are cutting your costs to just over $6000.

And because you set the limit, you can establish whatever reimbursement level you like. Many employers set up their HRA to reimburse $150 - $200 per month, per employee. You could also cover dental expenses, smoking cessation, or other out-of-pocket medical expenses, up to the limits that you define in the HRA.

If instead of paying these expenses through an HRA you had simply paid your employee an additional $6300, they would have to pay taxes on that money, which could amount to over $2500 depending on their tax bracket. But because these expenses were paid through the HRA, the entire $6300 is considered to be a tax-free fringe benefit.

Your employees may also qualify for generous subsidies for their health insurance. Anyone making less than 400% of the federal poverty level qualifies for subsidized coverage if they purchase a plan through the health care exchange. They will *not* qualify for a subsidy if they are covered by group coverage.

## How Does A Defined Contribution Plan Work?

Defined Contribution Plans are also now extremely easy to set up, and to manage. As an employer, you provide a fixed monthly tax-free contribution to a Health Reimbursement Arrangement (HRA) for each participant. The HRA enables employees to obtain reimbursement for qualifying medical expenses, including health insurance premiums.

To set up the HRA, you can fill out our census at [www.HSAforAmerica.com/HRA-signup.htm](www.HSAforAmerica.com/HRA-signup.htm). Here you will establish reimbursement limits, and qualification parameters. Our HRA specialists will then set up all plan documents, so that you are in full legal compliance.

Your employees can then select an affordable health insurance plan customized to their own needs and budget. They can use their tax-advantaged HRA funds to choose from hundreds of individual plans ranging from a traditional copay plans to high-deductible HSA plans. Depending on the state they are in, they can choose from providers such as Blue Cross Blue Shield, Aetna, United Healthcare, Time, Humana, and many more. If their income is below 400% of the federal poverty level they will qualify for tax credits which will lower their premium.

Our expert advisors can offer full assistance. Instant quotes and information on all plans are available at [www.HSAforAmerica.com](www.HSAforAmerica.com).

Each month employees will submit their claims to the person you designate as the plan supervisor. They will then be reimbursed for their qualified expenses. A self-administered HRA is easy to manage, and will save your business thousands of dollars every year.

## What is the impact of individual coverage instead of group coverage?

When you offer an HRA, you will not be offering a "company health insurance plan". Instead what you will have is a voluntary program dependent on the employees own wishes and state of health. Your only function is to reimburse the employee for the incurred expense, up to the limits established in the HRA.

Individual health insurance is much less expensive than group coverage, and this is your way to get out of the health insurance business. Beginning in 2014, all plans will be guaranteed issue, so even employees with pre-existing health problems will be able to get an individual plan.

Because the employees are signing up for individual coverage, they are free to choose the type of plan that best meets their needs. They may wish to get a traditional co-pay plan, or a less expensive high-deductible HSA-qualified plan. Once they are approved they can take their coverage with them, even if they later leave the company.

There are no COBRA issues, there is no need to set up enrollment procedures for a group health plan, and you'll no longer have to shop your health insurance every year.

## What Expenses Can An HRA Reimburse?

The main reason for establishing an HRA is to be able to reimburse your employees for the cost of individual health insurance premiums. But you can also designate the plan to cover other expenses as well, including…

- Dental coverage
- Vision coverage
- Rx benefits
- Medicare and long-term care premiums
- Disability premiums
- Life insurance premiums for up to $50,000
- Preventative care benefits such as weight loss programs, or smoking cessation programs
- Alternative care such as chiropractors and acupuncture
- Over-the-counter medication when prescribed by a physician
- Other out-of-pocket medical expenses

Qualified medical expenses are explained in IRS Publication 502, Medical and Dental Expenses.

## Contributions and Distributions

There is no limit to the amount of money an employer is allowed to contribute to an HRA. You as the employer decide those limits when you establish the plan. The HRA must be funded solely through employer contributions, and may not be funded through employee salary deferrals under a cafeteria plan.

Distributions from an HRA are paid to the employee to cover qualified expenses. Health insurance premiums can be reimbursed from the beginning of the year. Other expenses must have occurred on or after the date the employee enrolls in the HRA.

More information is available in IRS Publication 969.

## How To Combine A Low-Cost HSA Plan With Your HRA

Most people today are setting up health savings accounts, or HSAs, as a way to lower their costs and save for the future. An HSA is available to anyone with a qualifying high-deductible health plan. If you have an HSA, you can deposit up to $5650 into a tax-deductible account, which can then be used to pay future medical expenses. If the money is not used, it is yours to keep and just grows tax-deferred like an IRA.

HSA plans offer lower premiums, they save you money on taxes, and they are the very best tax-advantaged way to save for future medical expenses you may incur during retirement. By combining an HSA with their HRA, your employees will be able to increase their tax benefits even further, and avoid withdrawing money from your HSA. This will enable them to take full advantage of the tax-deferred growth that an HSA offers.

Though some advisors may tell you that you cannot have both an HSA and an HRA, this is not the case. An HRA does not disqualify someone from having an HSA, if the expenses reimbursed by the HRA are limited to medical items allowed for first-dollar coverage on an HSA plan[3].

So, with an HSA they can have an HRA that reimburses directly for expenses or for insurance covering:

Accident coverage
Hospital indemnity coverage that pays a set amount per day you are in the hospital
Specific disease care that pays a set amount if you get cancer or some other specific disease
Dental and vision care
Wellness and preventive care, such as:

- Annual physicals and diagnostic screenings
- Routine prenatal and well-child care
- Child and adult immunizations
- Tobacco cessation programs
- Obesity weight-loss programs

The HRA may not cover expenses that are meant to apply directly toward the deductible of their HSA-qualified plan. So it cannot reimburse for doctor visits, prescription drug coverage, or hospital charges prior to meeting their deductible, if they want to combine it with an HSA plan.

## How An HRA With An HSA Will Save Your Employees Even More Money

Assuming the same example as above, let's look at how having an HSA along with their HRA could save your employees an additional $1892, or nearly $5000 over having neither.

| | |
|---|---|
| Health insurance premiums | $5000 |
| $100 deductible accident plan | $300 |
| Routine physicals and screening exams | $500 |
| Life Insurance Premiums | $500 |
| **Total Medical Costs** | **$6300** |

Reimbursing these expenses through the HRA again makes them a tax-free fringe benefit, saving your employee Federal income taxes, state income taxes, and FICA. Assuming they are in a 28% income tax bracket and a 5% state income tax bracket, this will save them $2561 compared to if they had earned the $6300 as taxable income.

With an HSA a family can deposit up to $6,250 into their account, for which they get a full write-off on their federal income taxes, as well as their state income taxes in all but four states[4]. Assuming a 28.5% Federal income tax and a 5% state income tax, 33.5% of $6,250 results in an additional tax reduction of $2,093.75.

So the end result in this example is that having an HSA plan in conjunction with their HRA is saving them an additional $2,093.75 over having just an HRA, and **nearly $4500 over paying for their health insurance on their own.**

## How Much Paperwork Is Involved?

HRAs are very easy to establish and manage. Our program makes the process very simple, and ensures that you are in compliance with all federal regulations.

**To establish an HRA, the IRS requires the following:**

- A formalized working relationship with your spouse, including a written employment agreement, which outlines your spouse's responsibility and wages.
- A Plan Document
- A Summary Plan Description which must be furnished to all plan participants

When you apply for an HRA through HSA for America, the framework, documentation, and administration is provided, making offering the employee benefit plan simple and easy to do. All you have to do is fill out a simple questionnaire which takes about 5 minutes. You will then receive a pdf copy of all documents and login information so you can manage the account.

## Overview of HSA for America's Defined Contribution Program

HSA for America is known for helping small business owners save money, and making the process easy. Here's a quick overview of how this all works:

- You as the employer define your tax-free contribution levels
- Your employees reimbursements are administered by a third party, which keeps employee medical records private, as required by law.
- Employees receive reimbursements for qualified medical expenses, including health insurance premiums.
- At your option, the HRA can be set up so that unspent amounts can accumulate for future medical expenses, retirement medical costs (including premiums) and you can also allow a roll-over of unused funds from year to year
- HSA for America's personal benefit representatives help the employee select the health insurance plan that best fits his/her needs and budget

**Advantages for employers**

The primary reason small businesses are setting up HRAs is of course because they can save 50 percent or more on their current and future healthcare spending. But there are other important advantages in moving from an overpriced group plan to separate, individual policies for everyone in your company:

- You do not have to deal with COBRA upon termination of an employee.
- You can set up your HRA as you like, including customized contribution amounts, employee eligibility, and reimbursement frequency.

- Increased employee satisfaction by offering a wider selection of plan options
- You no longer have to hire someone to administer the company health plan. (Imagine getting rid of that hassle!)
- Focus on your business - not your benefit program
- You avoid expensive group premiums

**Advantages for employees**

Your employees will love having individual coverage.

- Employees enjoy the peace of mind of knowing that their policy is permanent and portable. It can be taken with them if they move or lose their job, and is not tied to their employment.
- They get to choose individualized healthcare coverage best fitting their needs and budget. They can choose a higher or lower deductible, an HSA plan or a co-pay plan, and they can choose to add riders like dental coverage or life insurance.
- Choice of dozens of plans from brand name providers such as BlueCross BlueShield, Aetna, United Healthcare, Time Insurance, Humana, and many more
- They may qualify for subsidized family coverage, only available if they are not covered by a group plan
- They will receive personal assistance in choosing and applying for coverage from one of our experienced HSA for America benefit representatives.

## Defined Contribution Plans – The Future Of Health Insurance

The move from expensive employer-sponsored group plans to affordable individual and family policies is already under way. This will accelerate as more employers take advantage of defined contribution plans to reimburse employees for premiums on individual health plans using pre-tax dollars. This can effectively lower the after-tax price of such policies by 50 percent or more.

HRA Premium Reimbursement Arrangements are not currently available in Texas, Florida, and Kentucky..

## How To Get Signed Up

Avoid the annual burden of a health insurance plan design, selection, and enrollment, and cut your expenses by $8000 per employee. You could have your attorney or CPA set up your HRA, but the costs would likely be thousands of dollars every year. You'd also need to find someone to administer the HRA.

The system we use has been streamlined, so that we can quickly build a custom Defined Contribution Plan for your business. This specialization also enables to put together your HRABecause the system we use is a fully integrated web application which allows us to put together your HRAs much more quickly, and *much* less expensively. Here's how to get started:

1. Set up your HRA quickly online or by faxing or mailing us the enrollment form by going to our HRA Signup form, or give us a call at 866-749-2039 and we'll be happy to help. We will then email all relevant documents and login information so you can manage your own accounts.
2. Have your employees apply for an individual health insurance plan at HSA for America. Instant quotes and online applications are available for dozens of plans.
3. Get out of the health insurance business, for good!

An HRA plan is ideal for small businesses with employees that are all in good health. They are easy to establish and manage, your employees get permanent health insurance coverage, and your business will save thousands of dollars. If you have any questions or need some assistance, please email us at info@HSAforAmerica.com, or give us a call at **800-707-9849**.

## Footnotes

1. Insurance premiums can go back to beginning of year. Other reimbursements start when HRA starts.

2. IRS Publication 15-B Employer's Guide to Fringe Benefits

2. Under IRC Section 223, an eligible individual cannot be covered by a health plan that is not an HDHP unless that health plan provides permitted insurance, permitted coverage or preventive care. A health FSA and an HRA are health plans and constitute other coverage under section 223(c)(1)(A)(ii). Consequently, an individual who is covered by an HDHP and a health FSA or HRA that pays or reimburses section 213(d) medical expenses is generally not an eligible individual for the purpose of making contributions to an HSA. See Rev. Rul. 2004-38, 2004-15 I.R.B. 717, which holds that an individual who is covered by an HDHP that does not provide prescription drug coverage and a separate prescription drug plan or rider that provides benefits before the minimum annual deductible of the HDHP has been satisfied is not an eligible individual for HSA purposes.

3. See http://www.HSAforAmerica.com/state-income-tax.htm for information on which states allow a deduction for HSA contributions.

A good basic reference is IRS publication 969, which can be found on our Government Info page (http://www.HSAforAmerica.com/gov-info.htm)