AMWINS BENEFITS | Small to Mid-Market

Comparison of Types of HRAs
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This Guide is meant to showcase the different types of HRAs that are available and the varying characteristics among them. The Guide starts out with an introduction to the original HRA and its delineations, followed by comparisons of the different flavored HRAs that exist today (EBHRAs, ICHRAs, and QSEHRAs). The intention of this Guide is to illustrate why an employer may choose to implement one certain type of HRA over another and which would be the best fit for them.

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The Original HRA

Health Reimbursement Arrangements (HRAs) were formally created in 2002, when the IRS established a safe harbor allowing unused funds to carry over from year to year while still being provided on a pre-tax basis. Prior to this guidance being released, medical reimbursement plans were utilized sparingly due to the uncertainty around their tax treatment. There is no specific Code section governing HRAs, but the IRS has confirmed their tax-favored treatment under the general principles of Code §§105 and 106.

In 2010, the healthcare reform added a variety of requirements for group health plans, including HRAs. These requirements meant that employees would generally have to be covered by a group health plan in order to receive reimbursement from an HRA. Further, HRAs could not be used to reimburse employees for the cost of individual health insurance.

HRAs limited to reimbursement of excepted benefits

The first thing to note is that this type of HRA is NOT the same as an Excepted Benefit HRA (these are discussed below). EBHRAs themselves are considered excepted benefits; here, we refer to an HRA that is limited by plan design to only reimburse excepted benefits such as limited-scope dental or vision.

Retiree-only HRAs

Though it may be obvious, a defining feature of a retiree-only HRA is that only retirees and their family members are eligible for them. Unlike an HRA offered to active employees, a retiree-only HRA can reimburse insurance premiums in addition to §213(d) qualifying medical expenses. NOTE: Coverage under a retiree-only HRA is minimum essential coverage and will make the individual ineligible for Marketplace premium tax credits.

Medical Expense Reimbursement Plans (MERPs)

We are aware that there is an offering available that is referred to as a MERP. The main difference between a MERP and an HRA as defined by the IRS is that an HRA can allow for a carryover of unused funds from year to year, whereas a MERP usually does not. From a compliance standpoint, MERPs are generally subject to the same rules as HRAs.

	HRA Integrated with group medical plan	HRA limited to excepted benefits	Retiree-only HRA
Eligible Employers	• Employers of any size.	• Employers of any size.	• Employers of any size.
Eligible Participants	• Employees and dependents who are ENROLLED in an integrated group medical plan (through the same employer or another employer).	• Determined by plan eligibility rules.	• Retirees and dependents who meet plan eligibility rules.
Contributions	• Unlimited employer contributions.	• Unlimited employer contributions.	• Unlimited employer contributions.
Carryovers & Spenddowns	• Carryovers and spenddowns permitted by plan design.	• Carryovers and spenddowns permitted by plan design.	• Carryovers and spenddowns permitted by plan design.
Reimbursements	• §213(d) qualifying medical expenses for those enrolled in an integrated group medical plan. • Cannot reimburse individual insurance premiums.	• Excepted benefits, e.g., limited-scope dental or vision.	• §213(d) qualifying medical expenses, including insurance premiums for retirees and dependents.
Nondiscrimination	• Subject to §105(h) rules, which prohibit favoring highly compensated individuals.	• Subject to §105(h) rules, which prohibit favoring highly compensated individuals.	• Subject to §105(h) rules, which prohibit favoring highly compensated individuals.
HSA-Eligibility	• Prevents HSA-eligibility unless it is designed to be post-deductible.	• Will not interfere with HSA-eligibility.	• Prevents HSA-eligibility unless it is designed to be post-deductible, only available to reimburse excepted benefits, or only available to reimburse premiums.
Medicare	• Generally prohibited from reimbursing Medicare premiums due to MSP rules.	• Not applicable since reimbursement is limited to excepted benefits.	• Permitted to offer a retiree-only HRA to those eligible for/enrolled in Medicare. • May reimburse Medicare premiums.
Employer Mandate	• Satisfied if the integrated group medical plan provides minimum value and is affordable.	• Does not satisfy employer mandate requirements.	• Employer mandate is not applicable to retirees.
ERISA, COBRA & PCORI	• Subject to ERISA and COBRA. • Subject to PCORI fees.	• Subject to ERISA and COBRA. • Not subject to PCORI fees.	• Subject to ERISA and COBRA. • Subject to PCORI fees.

Qualified Small Employer HRA (QSEHRA)

Qualified small employer HRAs (QSEHRAs) were the first formal mutation of the HRA, created by Congress in 2016. They were created in response to the difficulty that small employers dealt with in the face of healthcare reform and its prohibitions on annual and lifetime limits and preventive coverage mandate. They were the first legal vehicle through which employers could reimburse an employee for individual coverage premiums (in addition to the §213(d) qualifying medical expenses that all HRAs are permitted to reimburse).

Only small employers (<50 full-time equivalent employees) who do not offer a group health plan are permitted to offer a QSEHRA. For a small employer looking to provide its employees with medical expense reimbursement other than through a traditional group health plan, the QSEHRA makes tax-favored reimbursement of qualifying medical expenses available while allowing employees to choose their own minimum essential coverage (e.g., individual health coverage, group health coverage through a spouse's plan, or Medicare). The QSEHRA is subject to a maximum benefit limit based on tier of coverage, and tax-favored reimbursement of qualifying medical expenses via the QSEHRA is available solely to those who prove or attest to having minimum essential coverage.

QSEHRAs are not very common, in part because the only employers that are eligible to sponsor a QSEHRA are small employers that are generally not legally obligated to offer health coverage to their employees in the first place. Their lack of popularity is also in part due to the "uniformity requirement," which requires that the QSEHRA is provided (not just offered, but actually made available) for all eligible employees (which is statutorily defined as all employees excluding a few specific groups, as seen in the chart below).

Excepted Benefit HRA (EBHRA) and Individual Coverage HRA (ICHRA)

In 2019, the Agencies (the IRS, DOL, and HHS) jointly issued regulations that established two additional types of HRAs: Excepted Benefit HRAs (EBHRAs) and Individual Coverage HRAs (ICHRAs).

EBHRA

EBHRAs may be established by employers of any size but must be offered alongside a traditional group health plan. EBHRAs themselves are considered excepted benefits, so employers offering an EBHRA must also offer non-excepted traditional group health plan coverage to those that are eligible for the EBHRA (similar to general-purpose health FSAs, they cannot be offered to those not eligible for the employer's group medical plan). It is not required that EBHRA participants actually enroll in the non-excepted group health plan coverage, but it must at least be offered – this is a distinguishing characteristic of the EBHRA from the original, integrated HRA.

An EBHRA is a good option for an employer that offers a traditional group health plan but also wants to offer further assistance to employees to reimburse §213(d) qualifying medical expenses without necessarily requiring EBHRA participants to enroll in the group health plan (as would be the case for an integrated HRA). An EBHRA may reimburse qualifying medical expenses under §213(d) but may not reimburse insurance premiums of any kind. They are also limited to a maximum benefit that is indexed annually.

ICHRA

ICHRAs allow employers of all sizes (not just small employers, like the QSEHRA) to provide tax-free reimbursement to employees for insurance premiums as well as broader §213(d) qualifying medical expenses. Unlike QSEHRAs, the ICHRA is not required to be offered to all eligible employees, but the ICHRA must be offered uniformly within specified classes of employees and cannot be offered alongside a traditional group health plan (employees cannot be given a choice between the ICHRA and a traditional group health plan). There are no maximum benefit limits for the ICHRA, but the ICHRA can only offer reimbursement to those who prove or attest to coverage under an individual health plan or Medicare (not other group health plan coverage).

An employer may want to consider an ICHRA to more readily predict and control the amount that they are spending on their employees' health coverage. It can also be a relief to employers to avoid making complex benefits design decisions, while simultaneously allowing employees to have more options to choose from health insurance-wise.

	EBHRA	ICHRA	QSEHRA
Eligible Employers	• Employers of any size who offer a group medical plan.	• Employers of any size.	• Small employers (<50 FTEs) who do NOT offer a group medical plan.
Eligible Participants	• Employees and dependents who are ELIGIBLE for the employer's group medical plan.	• Employees and dependents who are enrolled in an individual health plan or Medicare and who are NOT eligible for the employer's group medical plan.	• Employees who are enrolled in minimum essential coverage, e.g., individual health coverage, group health coverage, or Medicare.
Contributions	• Maximum indexed annually. • 2026 limit: $2,200.	• Unlimited employer contributions.	• Maximum indexed annually. • 2026 limits: $6,450 for single and $13,100 for family.
Carryovers & Spenddowns	• Carryovers permitted by plan design but will count against the following year's maximum limit.	• Carryovers permitted by plan design. • Spenddown only permitted so long as the individual maintains individual health coverage or Medicare.	• Carryovers permitted by plan design but will count against the following year's maximum limit.
Reimbursements	• §213(d) qualifying medical expenses. • Cannot reimburse insurance premiums.	• §213(d) qualifying medical expenses, including insurance premiums for those enrolled in individual health coverage or Medicare.	• §213(d) qualifying medical expenses, including insurance premiums for employees and dependents.

Nondiscrimination	• Subject to §105(h) rules, which prohibit favoring highly compensated individuals.	• Must be offered on the same terms and conditions to all employees within specified classes.
		• Employer contributions may vary by age (3:1) or number of dependents eligible for reimbursement.
			• Must be provided (not just offered) uniformly to all employees, except for the following:
			  ○ <90 days of service;
			  ○ <25 years old;
			  ○ Part-time or seasonal;
			  ○ Union; and
			  ○ Nonresident aliens not paid with a U.S.-source income.

HSA-Eligibility	• Prevents HSA-eligibility unless it is designed to be post-deductible or only available to reimburse excepted benefits.	• Prevents HSA-eligibility unless it is designed to be post-deductible, only available to reimburse excepted benefits, or only available to reimburse premiums.	• Prevents HSA-eligibility unless it is designed to be post-deductible, only available to reimburse excepted benefits, or only available to reimburse premiums.
Medicare	• Generally prohibited from reimbursing Medicare premiums due to MSP rules.	• Permitted to offer an ICHRA to those eligible for or enrolled in Medicare. • May reimburse Medicare and Medicare supplement premiums.	• Permitted to offer a QSEHRA to those eligible for or enrolled in Medicare. • May reimburse Medicare premiums.
Employer Mandate	• Does not satisfy employer mandate requirements.	• Satisfies employer mandate if affordable based on the lowest cost silver plan on the Marketplace.	• Employer mandate is not applicable to small employers.

ERISA, COBRA & PCORI	• Subject to ERISA and COBRA. • Not subject to PCORI fees.	• Subject to ERISA and COBRA. • Subject to PCORI fees.	• Subject to ERISA, but not COBRA. • Subject to PCORI fees.
Premium Tax Credits	• Coverage will not affect eligibility for Marketplace premium tax credits.	• Eligibility for the ICHRA will cause a loss of eligibility for Marketplace premium tax credits if the ICHRA is affordable. • Enrollment in the ICHRA will cause a loss of eligibility for Marketplace premium tax credits even if the ICHRA is not affordable.	• Coverage will cause a loss of eligibility for Marketplace premium tax credits if the QSEHRA is affordable. • If the QSEHRA coverage is not affordable, Marketplace premium tax credits will be available on a pro-rated basis.