

COMPLIANCE

101

How to Reimburse Employees for
Individual Health Insurance
The Right Way





**Group health insurance is broken.
We have the solution.**

Zane Benefits offers simple and affordable health benefit solutions to small and medium sized businesses.

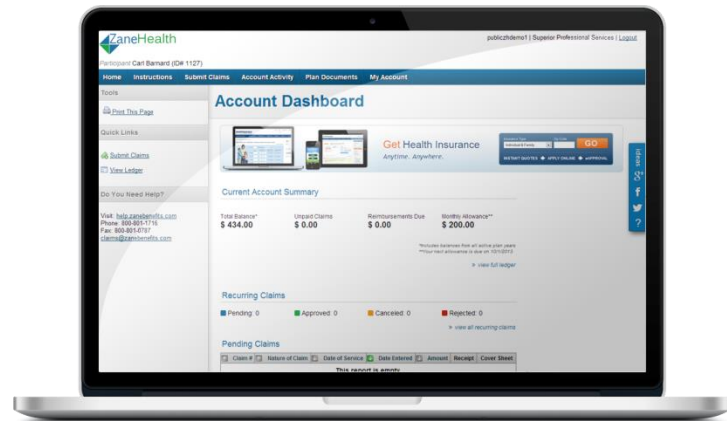
The ZaneHealth software helps businesses save 20% to 60% on healthcare costs by reimbursing employees for individual health insurance.

Our online solutions allow businesses to create compliant healthcare reimbursement plans that create happier employees, reduce costs, and save time.

Zane Benefits' Partner Program is an opportunity for insurance professionals to provide clients with custom Zane Benefits solutions. [Request a Partner Evaluation.](#)

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COMPLIANCE 101

How to Reimburse Employees for Individual Health Insurance the Right Way

Introduction

Today, fewer than 50% of small businesses offer employees health insurance, largely because of the cost. That's over 2.3 million small businesses that don't offer health insurance.

However, most want to offer health benefits to recruit and retain top employees, which is why small businesses are thinking outside the box and evaluating individual health insurance.

On average, individual health insurance costs up to 60 percent less than group health insurance for the same or better coverage.

Additionally, individual health insurance is better for employees because of greater choice, portability, guaranteed-issue coverage, and additional cost savings with the premium tax credits.

All of these factors leave small business owners asking "Can I reimburse employees for individual health insurance?" And, "Can we do this tax-free?" The answer to both of these questions is **yes**.

This "101" guide outlines how employers can reimburse employees for individual health insurance tax-free, while keeping the business and employees in compliance.

It's estimated that 60% of small businesses will abandon group health insurance in favor of individual health insurance by 2017.

How to Reimburse Employees for Individual Health Insurance Tax-Free

Step 1: Employer Sets up a Formal Reimbursement Plan

The first step is for the employer to set up a self-insured medical reimbursement plan, also called a Healthcare Reimbursement Plan (HRP) or Section 105 Medical Reimbursement Plan. To comply with all applicable rules and regulations (discussed next), the reimbursement plan is structured to reimburse employees for:

- ✓ Health insurance premiums up to a specified monthly healthcare allowance, and
- ✓ Basic preventive health services without cost-sharing.

When the employer sets up the reimbursement plan, they determine monthly healthcare allowances and define which employees are eligible for the plan.

Step 2: Employees Purchase a Health Insurance Plan

Each employee purchases an individual or family health insurance plan with their own money.

Step 3: Employer Reimburses Employees

Employees request reimbursement from the reimbursement plan. Once the premium expense is substantiated, the employer reimburses employees tax-free.

Employers can also reimburse employees with a taxable healthcare allowance. But, most employers and employees prefer a tax-free solution because of the cost savings.



Tip: To ensure compliance and to make administration easy, most employers use a premium reimbursement software provider.

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Compliance 101

When it comes to self-insured medical reimbursement plans, there are three key compliance considerations:

1. A self-insured medical reimbursement plan is a group health plan.
2. A self-insured medical reimbursement plan is a tax-free benefit as outlined in IRS Code.
3. All group health plans, including self-insured medical reimbursement plans, must comply with applicable federal rules including IRS, HIPAA, COBRA, ERISA, and the ACA.

1) A Self-Insured Medical Reimbursement Plan is a Group Health Plan

What is a group health plan? A group health plan is defined as an employee welfare benefit plan established or maintained by an employer or by an employee organization (such as a union), or both, that provides medical care for participants or their dependents directly or through insurance, reimbursement, or otherwise.

Why is this important? Group health plans must follow applicable IRS, HIPAA, COBRA, ERISA, and ACA rules. The specifics of these rules are discussed on pages 6-8.



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2) A Self-Insured Medical Reimbursement Plan is a Tax-Free Employee Benefit

Self-insured medical reimbursement plans are a tax-free employee benefit as outlined in Internal Revenue Section 105.

For employers, this means reimbursements are tax-deductible as a business expense, the same way as premiums paid for a group insurance policy or other benefits expenses.

For employees, reimbursements are not included in employees' income and thus not subject to any income or payroll tax withholding. *However, the tax-free nature of reimbursements received by proprietors, partners, and some S-Corp shareholders may be limited.*

Key Sections of the Internal Revenue Codes for Tax-Preferred Premium Reimbursement

- **IRC Section 105:** Section 105 allows tax-free reimbursements from a self-insured medical reimbursement plan if the reimbursements are for expenses incurred for “medical care” as defined in Section 213(d).
- **IRC Section 213:** Section 213(d) defines “medical care” for personal deduction and Section 105 distributions, which includes amounts paid for insurance.
- **IRC Section 106:** Section 106 allows the value of the self-insured medical reimbursement plan to be tax-free to employees.
- **IRC Section 162:** Section 162 allows reimbursements to be tax-deductible to the employer as a business expense.



Tip:
The tax code still allows tax-free reimbursement of individual health insurance via IRC Section 105 and IRC Section 213.

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3) Self-Insured Medical Reimbursement Plans Must Comply with IRS, HIPAA, COBRA, ERISA, and ACA Rules

The chart below outlines the core requirements that self-insured medical reimbursement plans must comply with.

Rule or Regulation	Description	Tips
Internal Revenue Service (IRS)		
Plan Documents	The IRS requires that written Plan Documents are established and maintained. Plan Documents define what expenses are eligible for reimbursement, the amount of employer contribution, and other required details about the reimbursement plan.	<i>Use a premium reimbursement software provider to generate custom and accurate Plan Documents that can easily be updated with plan changes.</i>
Documentation	The IRS requires that employees submit proper documentation verifying their claim for reimbursement, and that supporting documentation is saved on file for ten years.	<i>Premium reimbursement software ensures compliance with IRS documentation rules.</i>
Non-Discrimination	The reimbursement plan must comply with IRS non-discrimination rules. The rules state the plan must not discriminate in favor of highly compensated individuals (HCIs) with respect to eligibility to participate in the plan or benefits provided under the plan.	<i>Employee classes must be based on bona-fide job criteria. All employees in the same class should be treated equally.</i>
Health Insurance Portability and Accountability Act (HIPAA)		
HIPAA Privacy Rules	Self-insured medical reimbursement plans are governed by HIPAA Privacy Rules. In order to administer the reimbursement plan correctly, the entity processing employee reimbursement claims receives Protected Health Information (PHI) that is required to be held confidentially under HIPAA.	<i>Contract with a third-party processor (such as a premium reimbursement provider) to review all reimbursement requests so the employer does not come in regular contact with PHI.</i>
COBRA		
COBRA Compliance <i>Only for plans with 20 or more participants</i>	Self-insured medical reimbursement plans with 20 or more participants are subject to COBRA. Employers must give terminated employees the option to continue their participation in the reimbursement plan for a period after termination, and may charge an employee up to 102% of the value of their allowance if COBRA is elected.	<i>While most employees won't elect COBRA, applicable employers are required to offer it.</i>

Employee Retirement Income Security Act (ERISA)		
Summary Plan Description	<p>Self-insured medical reimbursement plans are employee welfare plans under ERISA. ERISA requires every [welfare] plan to have a Summary Plan Description (SPD) and to furnish copies to each participant.</p> <p>The SPD is the primary vehicle for informing participants and beneficiaries about their rights and benefits under their employee benefit plans.</p>	<p><i>Use a premium reimbursement software provider to generate custom and accurate Summary Plan Descriptions (SPDs) that can easily be updated and distributed with plan changes.</i></p>
ERISA Compliance	<p>The U.S. federal government has specific regulations employers must comply with in order to reimburse employees for individual health insurance premiums without triggering ERISA plan status for the individual health insurance policies.</p> <p>For example, the employer must not endorse specific individual health insurance policies or pay directly for them.</p>	<p><i>Do not get involved in the purchase or selection of employee's individual health insurance policies.</i></p>
Affordable Care Act (ACA)		
Annual Limit Compliance	<p>Section 2711 of the Public Health Services ("PHS") Act, as added by the ACA, provides that no annual or lifetime limits may be placed on essential health benefits ("EHB"). PHS Act 2711 provides that annual limits and lifetime limits may be placed on benefits that are not EHB, such as health insurance premiums.</p> <p>As such, compliant self-insured medical reimbursement plans are designed to only reimburse individual health insurance premiums up to a specified monthly healthcare allowance, and basic preventive health services as required by PHS Act Section 2713 (discussed next).</p>	<p><i>Use a premium reimbursement provider to ensure the plan design and Plan Documents comply with this requirement.</i></p>
Preventive Care Compliance	<p>Section 2713 of the PHS Act, as added by the ACA, requires group health plans (including self-insured medical reimbursement plans) to cover basic preventive health services without cost-sharing.</p>	<p><i>Use a premium reimbursement provider to ensure the plan design and Plan Documents comply with this requirement, and to help the employer limit cost liability.</i></p>
90-Day Waiting Period Compliance	<p>The ACA prohibits waiting periods over 90 days for eligible employees.</p>	<p><i>Set a maximum waiting period of 90 days.</i></p>
Internal and External Claims Appeal Process	<p>The ACA added new requirements to the internal and external appeal process including how and when procedures are communicated to plan participants.</p>	<p><i>Use a premium reimbursement provider to ensure reimbursements requests are reviewed according to these guidelines.</i></p>

<p>Dependent Coverage for Adult Children up to Age 26</p>	<p>Section 2714 of the PHS Act, as added by the ACA, provides that a group health plan (including a self-insured medical reimbursement plan) that makes available dependent coverage of children must make such coverage available for children until 26 years of age.</p>	<p><i>Allow adult children up to age 26 to be enrolled as dependents.</i></p>
<p>Uniform Explanation of Coverage and Definitions</p>	<p>The ACA requires that group health plans, participants, and beneficiaries receive a standardized summary of benefits and coverage ("SBC") and a set of uniform definitions ("Uniform Glossary"), both of which must conform to requirements outlined in the ACA and existing regulations.</p>	<p><i>Provide employees with the required communications, customized by class of employee. Use a premium software provider to automatically generate these documents.</i></p>
<p>Form 720 Comparative Effectiveness Research (CER) Fee</p>	<p>The ACA includes a "research fee" that plan sponsors must pay on an annual basis annually via Form 720.</p>	<p><i>Complete Form 720 annually and pay the research fee.</i></p>
<p>Form 5500 Series Form (Annual Report)</p>	<p>Employers with 100+ employees must file a Form 5500 (annual report).</p>	<p><i>If applicable, complete Form 5500 annually and pay the research fee.</i></p>
<p>60-Day Notice of Material Modification</p>	<p>The ACA requires employers to provide 60 days advanced notice to participants when making material modifications to their group health plan (including self-insured medical reimbursement plans).</p>	<p><i>Use premium reimbursement software to easily monitor when material modifications are made, and to automatically provide participants with new SBCs when applicable plan design changes are made.</i></p>



Questions about Compliance or Reimbursing Individual Health Insurance?

Contact a Zane Benefits Specialist at info@zanebenefits.com or [click here](#).

Conclusion


The best way to offer an employee health benefit is to reimburse employees for individual health insurance. Employees pick the plan that best fits their needs, including the doctor, keep the plan for as long as they want, and save money.

As employers set up self-insured medical reimbursement plans to reimburse individual health insurance tax-free, there are important federal regulations to understand and comply with. Failure to comply with these regulations can lead to costly fines.

By using a quality premium reimbursement software provider, employers can administer a compliant reimbursement plan in less than 5 minutes per month.



Additional Health Benefits Resources

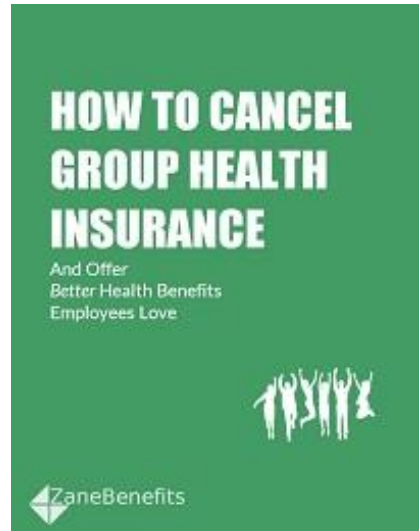
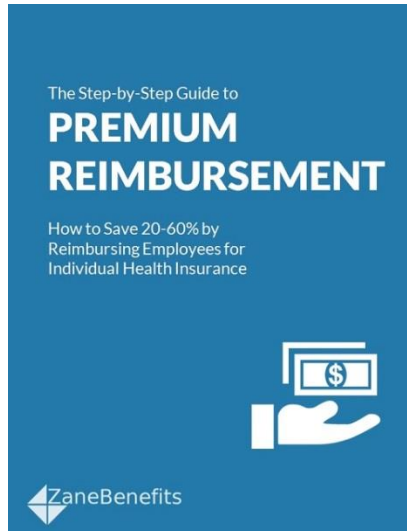
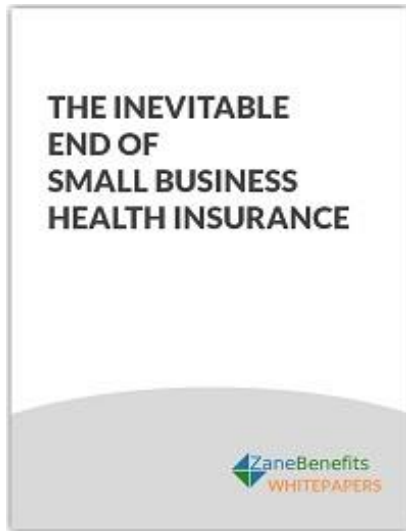


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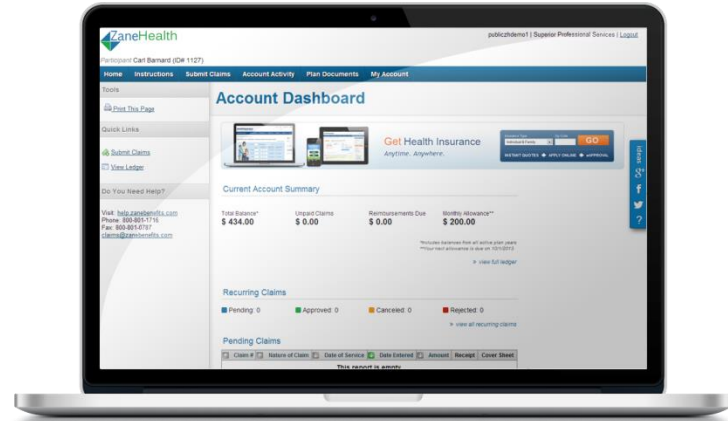
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