QSEHRA

How can employers reimburse employees for health insurance?

Amy • November 3, 2024

Can employers reimburse employees for health insurance in 2025? Can a business reimburse an employee for health insurance? Can an employer reimburse employee health premiums? We hear these questions a lot. The quick answer is "no", at least not tax-free without some serious tax consequences. The IRS is going to treat the employer reimbursement of health insurance as income and insist that the employer pay payroll taxes and the employees recognize income tax. There are, however, health reimbursement arrangements that allow employers to reimburse for employee health insurance on a tax-advantaged basis.

Can employers reimburse employees for health insurance?

Now for 2025, employers of all sizes now have more flexibility than ever before when it comes to reimbursing their employees for health insurance. Employers can reimburse medical premiums as well as reimburse for medical expenses. This is a huge win for business owners who are looking for a more affordable, efficient way to offer small business health insuranc[...] having to hassle with a pricey, one-size-fits-all group plan. But first, the b[...]

What happens when you reimburse employees for health insurance?

The reality is tax free reimbursement *used* to be a common practice for small business owners. However, when the Affordable Care Act (ACA, a.k.a. "Obamacare) passed in 2010, the law had the unintended consequence of disallowing tax-free reimbursement for small companies.

The primary hang-up was an interpretation that any company that reimbursed for health insurance (including individual) was technically a group plan. According to the ACA, group plans are required to provide preventive care at no cost.

Since employers that reimbursed for individual plans did not meet the preventive care requirements, they would be subject to group plan penalties of up to $100 per employee per day. Yikes!

While Congress addressed the hotly debated topic of "Obamacare," little was done to help fix the problem. In late 2015, the IRS started enforcing the provision and leveraging hefty fines and penalties for companies caught reimbursing for individual health insuranc

In late 2016, the bipartisan 21st Century Cures Act was signed into law by President Obama that opened up the doors for health reimbursement arrangements for small employers. Three years later, regulatory rule updates allowed for this same treatment to be used by employers of all sizes and with a greater degree of flexibility.

Fast forward to 2025, two different types of HRAs have emerged and gained momentum to help businesses of all sizes.

> "ICHRAs have grown 3.5x in the past year and QSEHRAs have doubled in size on the market during that same time period, according to the HRA Council."

→ Check out the IRS rules for health insurance reimbursement.

The better option for employer reimbursement for health insurance: HRAs

Being on a group plan is like requiring everyone to wear the same size suit. Since everyone has their own needs and preferences when it comes to their health, doctors, and prescriptions, an HRA allows each employee to choose what's best for them.

A health reimbursement arrangement allows business owners to reimburse their employees on a tax-free basis for medical expenses, like health insurance premiums or qualified medical expenses.

Most importantly, HRAs allow business owners to avoid the penalties and fees and taxes we discussed earlier in the post.

The mechanics of an HRA are surprisingly simple. At a high-leve own health expenses and employers reimburse them. Here's how it works:

1. Employers design their plan and set reimbursement allowances
2. Employees pay for their own health insurance and medical bills
3. Employees provide proof of their expenses
4. Employers reimburse the employee up to the set limit

Can I offer an individual coverage HRA?

You're in luck! Businesses of any size can offer an individual coverage HRA to reimburse employee health insurance.

But there are two critical HRA plans to know.

ICHRA

An Individual Coverage HRA allows employers of any size to reimburse any amount per month for healthcare expenses incurred by employees on a tax-free basis, starting at any time of the year. The distinguishing element of this HRA is that employees can be divided into an unlimited number of classes, like hourly vs. salary or even based on location, and be reimbursed at different levels.

QSEHRA

A Qualified Small Employer HRA allows small employers to set aside a fixed amount of money each month that employees can use to purchase individual health insurance or use on medical expenses, *tax-free.* This means employers get to offer benefits in a tax-efficient manner without the hassle or headache of administering a traditional group plan and employees can choose the plan they want. The key thing to remember here is that all employees must be reimbursed at the same level.

Small Business Health Care Tax Credit

You might be eligible for the Small Business Health Care Tax Cr… tial to provide a credit of up to 50% of the premiums you pay for your employ… for non-profit employers).

To be eligible for the Small Business Health Care Tax Credit, small businesses and non-profits generally need to enroll in a Small Business Health Options Program (SHOP) plan. Meeting the following criteria is necessary to qualify for the tax credit:

- To be eligible for the Small Business Health Care Tax Credit, your company should meet certain criteria:

  - Your company has less than 25 full-time equivalent (FTE) employees.

  - The average salary of your employees is approximately $56,000 per year or lower.

  - You contribute at least 50% of the premium costs for your full-time employees.

  - You provide SHOP coverage to all of your full-time employees. (You are not required to offer it to dependents or employees working less than 30 hours per week to qualify for the tax credit.)

  Meeting these requirements can potentially make you eligible for the Small Business Health Care Tax Credit, which can provide a credit of up to 50% of the premiums you pay for your employees' health insurance (35% for non-profit employers).

What are IRS Rules For Health Insurance Reimbursement?

Employers should be aware of IRS rules for health insurance rei most crucial is IRS Publication 502, which provides information on medical an y be claimed as itemized deductions on a taxpayer's federal income tax return. This publication explains what types of expenses qualify, what documentation is required to support the deductions, and what limits apply.

With regard to health reimbursement arrangement rules, the IRS has established a number of guidelines that employers must follow. For one, an HRA must be funded solely by the employer and has to be used to reimburse employees for eligible medical expenses incurred by the employee, their spouse, and their dependents. Employers are generally allowed to set limits on the amounts that can be reimbursed and can also limit the types of expenses that qualify.

Additionally, HRAs must be integrated with a group health plan, meaning that the HRA cannot be used to reimburse employees for expenses that are covered by the group health plan. The HRA must comply with certain rules related to non-discrimination and HIPAA. They also have to be reported on the employee's W-2 form.

So are health insurance reimbursement plans taxable? Generally speaking, no. HRAs are employer-sponsored plans that reimburse employees for qualified medical expenses, and the IRS considers these reimbursements to be a tax-free fringe benefit. Still, employer reimbursement for health insurance premiums vary, so it's important for business owners to be aware of how this might affect their tax situation.

By staying on top of health reimbursement arrangement IRS rules, employers can offer quality HRAs to their employees while remaining within the scope of relevant laws and regulations.

Can My Employer Pay My Health Insurance Premium?

If you're an employee, you may wonder: can my employer pay my health insurance premium? Likewise, if you're an employer, you might ask: can I reimburse my employee for health insurance premiums? More generally, can an employer reimburse employees for health insurance premiums, or can an employer reimburse an employee for health insurance premiums? The short answer to all of these questions is yes, and this is commonly offered as a benefit to attract top talent to companies.

But can an employer pay 100% of health insurance? Yes, an employer can pay 100% of health insurance for their employees. If an employer pays 100% of the premium for a group health plan, the premium payments made by the employer for the employee's health insurance coverage are generally not considered taxable income to the employee.

However, it's important to note that the tax treatment of employer-paid health insurance premiums is subject to change, and it's always a good idea to consult a tax professional or review the most recent tax laws and regulations for the most up-to-date information.

Can a small business reimburse employees for health insurance? [illegible]tions, small companies have the option to reimburse their employees for he[illegible]g employee health insurance under a spouse's group plan is also possible for small businesses. Instead of providing its own group health plan, a small business can choose to reimburse employees for the cost of health insurance coverage obtained through their spouse's group plan.

The tax treatment of these reimbursements depends on the specific circumstances and the applicable tax laws and regulations in place. If a small business reimburses an employee for the cost of health insurance coverage obtained through their spouse's group plan, the reimbursements may be considered taxable income to the employee, unless they are provided through a qualified arrangement, such as a Section 125 plan or a health reimbursement arrangement (HRA).

Which HRA is best for employer reimbursement for health insurance in 2025?

There are two options for employer reimbursement for health insurance: ICHRA and QSEHRA. ICHRA is for companies of all sizes and QSEHRA is only for small businesses with less than 50 employees. To determine what's best for a specific business, it's important to think through specific factors like employee needs, location, local market considerations, and more.

Are there minimum or maximum contribution requirements?

If an employer offers an ICHRA, there is not maximum contribution requirement. For minimum contribution requirements, there are specific guidelines to ensure that the HRA offer is affordable for the employees.

Consider affordability in your individual coverage HRA offer

To determine if an individual coverage HRA is affordable for an employee and their dependents, the monthly premium that the employee would pay (after receiving reimbursement from the employer) for the self-only, lowest cost Silver plan available through the Marketplace in their area should be less than 9.02% of 1/12 of the employee's yearly household income for 2025. It's important for employers to consider this affordability factor when offering an individual coverage HRA.

- If the offer is deemed affordable, the employee will not qualify for the premium tax credit for their Marketplace coverage or for the coverage of other members in their household who would be covered under the individual coverage HRA.
- If the offer is not considered affordable, the employee must decline the individual coverage HRA in order to be eligible for the premium tax credit for Marketplace coverage. It is important to note that the employee cannot combine the individual coverage HRA with a premium tax credit.

Consider eligibility in your individual coverage HRA offer

For ICHRA, as a general statement, any employee who is a W2 will be eligible for insurance reimbursement. Employees must be enrolled in an ACA compliant qualified health plan. In general, if there's a metal tier name in their health plan, that's a good sign it is compliant. No short term plans, health sharing ministries, or association health plans for ICHRA.

What rules must health insurance reimbursements follow?

There are a few important health insurance reimbursement rules to follow. Here's a quick overview of ICHRA rules.

- Employers of any size have the opportunity to offer an ICHRA, providing a flexible and affordable option for their employees. To be eligible, employees must maintain Minimum Essential Coverage (MEC) through a qualified health plan that meets the necessary criteria. Different classes of employees, such as those in different geographic locations or working part-time, can be offered varying levels of benefits, allowing for customization based on individual needs.
- One of the major advantages of an ICHRA is that there are no maximum or minimum limits for monthly reimbursement rates, giving employers the flexibility to provide adequate support for their employees' healthcare expenses. Furthermore, employers can choose to offer an ICHRA at any time throughout the year, not just during open enrollment, making it convenient for both employers and employees. Transitioning from a group plan to an ICHRA is a seamless process, simplifying the switch for everyone involved.
- When an ICHRA becomes available, employees have a 60-day window to enroll in an individual health plan, triggering a special enrollment period. This makes it much easier for employees to find a plan that meets their needs outside of the regular open enrollment period. In addition, ICHRAs can help employers meet the employer mandate for companies with more than 50 full-time employees, as long as the offer is deemed "affordable" and meets minimum value requirements.
- Employers also have the option to offer an ICHRA alongside a traditional group plan, as long as both options are not offered to the same class of employees. This allows for additional flexibility and choice for employees. If an ICHRA is considered "unaffordable," employees can choose

between using Premium Tax Credits or the ICHRA. Howev ble, they cannot opt out and receive a premium tax credit.

- An ICHRA can be used to reimburse employees for premiums and qualified medical expenses, including dental and vision coverage. This provides comprehensive support for employees' healthcare needs. It's important to note that businesses offering an ICHRA must comply with a 90-day notification period before each plan year, ensuring that employees are informed about the available benefits and their eligibility to participate.

  Overall, an ICHRA offers employers and employees a flexible and affordable solution for healthcare coverage, allowing for customization and ease of use. By understanding the rules and regulations surrounding ICHRAs, employers can provide valuable benefits to their workforce while staying compliant with federal regulations.

Pros and Cons of HRAs

Pros and Cons of Health Reimbursement Arrangements

Let's start with the advantages of HRAs.

Pros

Here are some advantages of HRAs to consider:

- Versatility for all businesses: ICHRAs are suitable for businesses of any size, while QSEHRAs are specifically designed for those with 50 employees or fewer.
- Freedom of choice: Employees have the flexibility to select their own healthcare providers and plans.
- Tailored reimbursement rates: ICHRAs allow employers to offer different reimbursement rates to employees based on factors such as full-time/part-time status, geographical location, and more. QSEHRAs, on the other hand, must be provided equally to all employees but can be adjusted based on family size or age.
- Various expenses covered: Depending on the HRA design, employees can utilize the funds to cover insurance premiums, medical expenses, or both.
- Special enrollment period: When a company offers either a QSEHRA or an ICHRA plan, employees become eligible for a special enrollment period. This means they can explore and choose a major medical plan from the individual market outside of the regular open enrollment period.
- Rollover of unused funds: Employers have the discretion to allow HRA account funds to rollover annually. If not, the funds will remain with the employer. Additionally, unused funds can also roll over month after month.

Cons

Here are some important considerations regarding HRAs:

- Portability of Funds: It's important to note that funds in an HRA are not portable and remain with the employer if an employee leaves the company. However, the employee gets to keep their health plan, which is a positive outcome.
- Compatibility with Group Plans: You cannot offer an HRA and a group plan to the same class of employees. If your team is satisfied with their existing group plan, they might be hesitant to give it up.
- Contribution Limits: Depending on the type of HRA, there may be contribution limits to consider. These limits, such as the 2025 QSHERA limits, could potentially restrict the employer from providing the desired generous amount.
- Options in Weak Insurance Markets: If the individual insurance markets in your area are limited or weak, it may restrict your employees' options for coverage.
- Sharing Ministry Plans: It's worth noting that sharing ministry plans are not eligible for ICHRA. However, there are recently proposed regulations that aim to clarify the situation, allowing them to be reimbursed as a medical expense, even though they are not considered health insurance. This development is good news for employers and employees alike.

Reimbursing health costs can strengthen your organization

What makes sense for your company depends on a number of factors, like company size, budget, legal makeup, local insurance market factors, etc. Some cities have market conditions with competitive individual insurance markets that make them prime for this new reimbursement model.

For additional resources, check out our post on HRAs vs FSAs, our HRA Guide, our QSEHRA Guide, our ICHRA Guide, or our wildly popular ICHRA FAQ Page.

Our team of HRA experts is online and ready to walk you through your options. Give us a shout!

Questions Employers Ask (FAQ)

How does a taxable stipend work?

A taxable stipend for health insurance is a fixed amount of money provided to employees, usually on a monthly basis, to assist with their health insurance costs. This stipend is considered taxable income, meaning it is subject to federal, state, and sometimes local income taxes. The employee receives this stipend in addition to their regular salary. They can use it to purchase an individual health insurance plan of their choice. Employers typically offer a stipend as a simpler alternative to managing a group health insurance plan. It's important for employees to underst… report this stipend as income when they file their taxes.

How does a tax-free HRA work?

A Health Reimbursement Arrangement (HRA) is an employer-funded plan that reimburses employees for medical expenses, including health insurance premiums, up to a certain amount each year. These reimbursements are tax-free, both for employers and employees, provided they comply with IRS guidelines. There are different types of HRAs, such as the Qualified Small Employer HRA (QSEHRA) and the Individual Coverage HRA (ICHRA), each with its own rules and contribution limits. Employees submit proof of their medical expenses, and employers reimburse them up to the amount set in the HRA. This arrangement allows employees flexibility in choosing their healthcare services and insurance plans while offering tax advantages.

Can I pay for employees' health insurance directly?

Yes, an employer can choose to pay for employees' health insurance directly. This is typically done through a group health insurance plan, where the employer selects a plan and pays either the full premium or a portion of it on behalf of the employees. The contributions made by the employer are generally tax-deductible for the business and tax-free for the employees. This approach requires the employer to manage the plan, which includes negotiating with insurance providers, handling enrollment, and managing plan renewals. It's important for employers to comply with the Affordable Care Act (ACA) and other relevant laws when offering a group health insurance plan.

Thi… for 2025.